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Sale of farm loan bonds

Washington

1921

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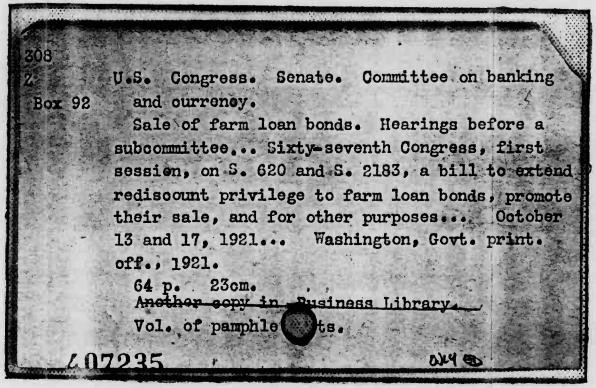
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SALE OF FARM LOAN BONDS

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HEARINGS

BEFORE A

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SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS
FIRST SESSION

ON

S. 620 and S. 2183

A BILL TO EXTEND REDISCOUNT PRIVILEGE TO FARM LOAN BONDS, PROMOTE THEIR SALE, AND FOR OTHER PURPOSES, AND TO AMEND SECTION THREE OF THE FEDERAL FARM LOAN ACT

OCTOBER 13 AND 17, 1921

Printed for the use of the Committee on Banking and Currency

WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

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SALE OF FARM LOAN BONDS.

THURSDAY, OCTOBER 13, 1921.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to call, at 11 o'clock a. m., in room 303, Senate Office Building, Senator Samuel M. Shortridge presiding.

Present: Senators Shortridge (chairman of subcommittee), Fletcher, Glass, and Weller.

The subcommittee had under consideration the bills S. 620, to extend rediscount privileges to farm loan bonds, promote their sale, and for other purposes, and S. 2183, to amend section 3 of the act of Congress of July 17, 1916, known as the Federal farm loan act, which are here printed in full as follows:

[S. 620, Sixty-seventh Congress, first session.]

A BILL To extend rediscount privilege to farm loan bonds, promote their sale, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any bank of the Federal Reserve System may buy or sell farm loan bonds; any member banks of said system may accept time drafts against a deposit of such bonds as security; acceptances of a member bank thus made, or the direct obligation of such bank, maturing within sixty days, when accompanied by farm loan bonds as collateral security not less in face value than the amount of such direct obligation, shall be eligible for discount by any Federal reserve bank.

[S. 2183, Sixty-seventh Congress, first session.]

A BILL To amend section 3 of the act of Congress approved July 17, 1916, known as the Federal farm loan act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second and third clauses of section 3 of the act approved July 17, 1916, known as the Federal farm loan act, reading, to wit:

"Said Federal Farm Loan Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an annual salary of $10,000, payable monthly, together with actual necessary traveling expenses.

"One of the members to be appointed by the President shall be designated by him to serve for two years, one for four years, one for six years, and one for eight years, and thereafter each member so appointed shall serve for a term of eight years, unless sooner removed for cause by the President. One of the members shall be designated by the President as the farm loan commissioner, who shall be the active executive officer of said board. Each member of the Federal Farm Loan Board shall within fifteen days after notice of his appointment take and subscribe to the oath of office,"

be amended so as to read as follows:

"Said Federal Farm Loan Board shall consist of four members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and the Secretary of Agriculture, who shall be a member ex officio, and two other members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the two members to be appointed by the President, not more

than one shall be appointed from one political party, and both of said members thus appointed shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board, and they shall each receive an annual salary of $10,000, payable monthly, together with actual necessary traveling expenses. One of the members to be appointed by the President shall be designated by him to serve for two years and one for four years, and thereafter each member so appointed shall serve for a term of four years, unless sooner removed for cause by the President.

"One of the members so appointed shall be designated by the President as the farm loan commissioner, who shall be the executive officer of the said board, and the other member shall be designated as the deputy farm loan commissioner, who shall serve as such executive officer in the absence of said commissioner. Each member of the Federal Farm Loan Board shall within fifteen days after notice of his appointment take and subscribe to the oath of office."

The CHAIRMAN. The committee will be in order. At the request of Senator Fletcher the subcommittee meets to-day to consider the bills S. 620 and S. 2183, and the committee will be glad to hear you, Senator.

STATEMENT OF SENATOR DUNCAN U. FLETCHER, A UNITED STATES SENATOR FROM THE STATE OF FLORIDA.

Senator FLETCHER. Mr. Chairman, by way of preliminary statement, I should say that I regard these bills, and especially S. 620, as being most important at this time. Apparently legislation of this character is absolutely essential if we are to accomplish the purpose and object of the farm loan act.

I need not stress the importance of agriculture to this committee. I have here statistics, which, of course, can be obtained from the Bureau of Census, showing the number of farms in the United States, the number of farm owners, the number of tenants, the value of farm property, both real and personal property, the value of the products in 1920, and other data bearing on the fact that this is the basic industry, and without prosperity to the farmers it seems to me there can be no general prosperity. If there is any industry in the country that should command the diligent and wise attention of Congress and should be treated with absolute justice and fairness in legislation, agriculture is that industry, and the people engaged in it are entitled to every consideration because they are the people who produce the Nation's food.

Perhaps I may be excused for just a personal word by way of qualifying to some extent for some of the views and opinions and proposals I am about to make to the committee. I grew up on a farm. My earliest recollections are in connection with the hardships, trials, and difficulties of a farmer. I know the bright side and the dark side of that occupation. When I was elected to the Senate I was engaged in the practice of law, and had been for 25 years. I was also president of a bank, but I sold my stock in the bank and resigned as president, because I had an idea that there might be some conflict between my public duties and my private interests. I have never since I have been here found any time when my vote could or should be influenced by that interest, and perhaps I did what was unnecessarily to my disadvantage when I severed all connection with banking. Since coming here I have devoted nights and days and months to the study of the general subject sometimes called rural credits, sometimes agricultural finance and sometimes designated as the farmers' agricultural problem, and I believed when we passed the farm loan act, that we had put on the statute book one of the most important pieces of legislation ever enacted by Congress, because I thought it meant the solution, to a very large degree, of the farmers' chief problem—supplying him, upon terms which he could meet, the necessary capital for his industry, at a low rate of interest and practically on terms of his own choice. I do not claim that that legislation was absolutely perfect then, nor do I so claim now. I think as time goes on we will see the need of some improvement, and I believe that this proposal looks in that direction.

The efficacy of this system—our first effort in the history of the Government to establish a financial system to meet the needs of agriculture—has been proven. There is no longer any question of theory or speculation or guess about what this system will do for agriculture. It has been demonstrated. The farmers of this country have been accommodated; money has been found for them at the rate of 5½ per cent per annum interest with amortization just such as they like, such as they require, to the amount—according to statements, I think, made in July last, to the Farm Loan Board by the Federal Land Banks—amounting to $364,738,851, net loans, and in addition to that by the joint-stock land banks, of $78,660,663, making a total of $443,399,514.

The system has been attacked; it has its enemies. It did have from the start, and it has yet. We might as well face that. There are people in this country who would like to see the system fail.

One effect of the operation of the act has been to reduce the rate of interest all over the country, not only to farmers, but in business transactions as well. That, of course, does not meet with the favor of certain people. I mention that as one reason for antagonism to the system. Those interests that had made money in negotiating loans, charging commissions, and exploiting the farmers, more or less, attacked the law, claiming that it was unconstitutional.

We know the result of that litigation. The Supreme Court of the United States has upheld its validity in all its essential and important provisions. But that litigation lasted about 15 months, during which time the system was not functioning; it began really again to function last February—I think that was about the time the decision of the Supreme Court was rendered; I have it here—last February, and the Farm Loan Board pretty soon started afresh. They discarded the applications that were pending, and all that sort of thing, and started anew almost; they got new appraisers, I think, and it seems to me they have been unnecessarily dilatory, although I do not mean to criticize the board, but it seems to me there was a long delay about getting started again, because I think they should have been prepared to go at once into closing up the pending transactions, and letting the farmers have the money that they had applied for, and many applications ought to have been passed upon and ready for action and approved, because I do not think the board ever ought to have assumed that this act would be declared unconstitutional at all.

The CHAIRMAN. But, Senator, the delay of 15 months necessarily held up the granting or withdrawal of given applications.

Senator FLETCHER. I grant that; but what I wish to emphasize is that they ought to have been prepared to jump immediately into the breach when that decision was handed down, and furnished the funds to meet the applications which ought to have been passed upon, it seems to me, in the meantime, and ready to be closed up.

Senator GLASS. But is it not a fact that there were 62 millions of applications passed upon, and did not the board proceed to function as soon as it could? It could not function without funds; it could not get funds without selling those bonds, and it could not sell those bonds over night.

Senator FLETCHER. I am coming to that. The point I am making is that in my judgment they ought to have been ready to issue those bonds at once, and to have gotten the money sooner than they did. They did not get the money until about June.

Senator GLASS. They got the money as soon as they could sell the bonds. They experienced a great deal of difficulty in selling the bonds.

Senator FLETCHER. It took them though from February to June before they were ready to go ahead making the loans. It seems to me that that was an unnecessary delay, and that is very material. They did offer at once forty millions of bonds—or as soon as they got them ready—forty millions of bonds, and they were taken up, most of them, within 10 days or so——

Senator GLASS. Oh, no; not in 10 days.

Senator FLETCHER. My recollection is that some thirty million were sold in about 10 days. I know that there was a drag toward the last. But they felt that that was as much as the public could absorb, or perhaps their experience in that connection indicated that. At any rate forty million dollars they managed to get through the sale of bonds, and, as I say, they did not get that money started out until along about June.

Now, what does forty million dollars mean to the farmers of this country? It means about $10,000 to each Farm Loan Association. In other words, one member of each Farm Loan Association could have borrowed the whole allotment, the whole of the proceeds of that bond issue, and all the other members of that association might have to wait, and would have to wait, for another year, or until such time as they could offer another issue of bonds. Forty million dollars distributed all over this country is a bagatelle. It will not meet the needs of agriculture at all.

Now, there were districts in this country—Federal land bank districts—that had applications pending to the amount of $40,000,000, and there are 12 districts. I mention this to show that this is not going to supply the farmer with the capital that he needs under this present arrangement. If the situation is such that the country, the public, will take only $40,000,000 of farm loan bonds from February to now, when they are beginning to issue some more bonds, that is not going to be an adequate supply of funds for the farmers under this act, and it is not going to accomplish the purpose of the act. They are now issuing $60,000,000 more, and I think they are to be dated May 1, and about, I am told, $33,000,000 of that issue has already been taken up. They figure that is as

INTENTIONAL SECOND EXPOSURE

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Now, there were districts in this country—Federal land bank districts—that had applications pending to the amount of $40,000,000, and there are 12 districts. I mention this to show that this is not going to supply the farmer with the capital that he needs under this present arrangement. If the situation is such that the country, the public, will take only $40,000,000 of farm loan bonds from February to now, when they are beginning to issue some more bonds, that is not going to be an adequate supply of funds for the farmers under this act, and it is not going to accomplish the purpose of the act. They are now issuing $60,000,000 more, and I think they are to be dated May 1, and about, I am told, $33,000,000 of that issue has already been taken up. They figure that is as

much as the public will take—$60,000,000. They have had some relief under this act, providing for $50,000,000 of Government deposits, but they estimate now, they will tell you—and I am quite sure I am quoting them correctly, because that is my understanding of what they told me only yesterday—that $200,000,000 a year is as much as this system can handle, or put out, and is as much as the public will subscribe for these bonds. They can not count on more than $200,000,000 a year. Well, my belief is that that is wholly inadequate to meet the needs of the farmers of the country. If you divide that into 12 districts you will observe what it means for each district.

Senator GLASS. But, Senator, is that a fair method of division? Some districts require infinitely more than others.

Senator FLETCHER. Not infinitely, but quite a good deal more.

Senator GLASS. I would say infinitely. Take, for instance, the New England district, where the farming activities are very much restricted. Those people up there do not require one-fifth of the accommodation that a great agricultural district in the middle or far west would require.

Senator FLETCHER. Yes, that is true, but take the districts which embrace much more territory, for instance, Texas alone, is one whole district, whereas, the district that I am in embraces North and South Carolina, Georgia and Florida.

Senator GLASS. Yes; but Texas is as big as North and South Carolina and Florida combined.

Senator FLETCHER. But the States are divided so as to endeavor to meet the needs of agriculture over certain areas; certain territory.

The CHAIRMAN. Both of those districts, of course, have large agricultural areas.

Senator FLETCHER. Yes. That would mean $50,000—$200,000,000 a year would be $50,000 to each Farm Loan Association in the United States. Well, $50,000 to each Farm Loan Association a year is not sufficient; it can not be sufficient. There are applications pending by farm loan associations, and have been pending, I know in our district, for six months and not yet acted on, and if the farmer is to be told that he can make his application but that he will probably have to wait six or seven or nine months before his application can be passed upon, and then maybe months longer before he can get his money, it is so discouraging to him that he will abandon the matter and not resort to those facilities which were intended for his benefit. It discredits the whole system with the farmers. At that rate of $200,000,000 a year, it will take 20 years to furnish enough money to pay off the existing mortgages on farms in this country—30 years.

The CHAIRMAN. The mortgages will never cease.

Senator FLETCHER. They never will cease. For instance, take the mortgages as they are to-day, and suppose those people who have their farms mortgaged and are paying 6 per cent, and then 2 per cent commission, and 2 per cent every time it is renewed for three or five years, etc.—those people would like to be relieved of those mortgages and put their property under this system. But if they undertake to do that, just to relieve themselves of the existing mortgages, it will take 30 years to do it, if we are going to proceed along the present basis. That is only one of the purposes for which the law provides loans are to be made.

Now, what is the remedy? The need is, of course, more money. How do they get the money? From the sale of farm loan bonds; that is the only way the money can be found that can be loaned to the farmers under this system—the sale of bonds. Unless you can broaden the market for those bonds, and create a new demand for those bonds, the system is wholly inadequate. It works splendidly so far as it goes, but it would not meet the needs of the farmers of the country, not by any means, and so the problem arises, how are you going to properly—I do not mean to do it in any reckless way or unsound way or unsafe way—but how are you going to create that additional demand and additional market for your farm loan bonds—because it is the proceeds of those bonds that are loaned to the farmers, and they can not get their money in any other way? If at the present time the country will only take $100,000,000 or $200,000,000 of those bonds a year, we must find some other way to induce the public to take these bonds, and that is the object and purpose of this bill. It is to broaden the market for farm loan bonds. It is to connect really the farm loan act with the Federal reserve act in a perfectly sound and safe way, according to my judgment, and in that way you will supply the money that will be required by the farmers of this country, and do it continuously, not take spells at it; not have lapses when you will be without money and have got to call on the Government. That is not the proper way, to ask the Government to put up the money in this system, in my judgment. That is an emergency proposition, and we do not want to have to resort to that. We can accomplish it if we pass this bill, which provides—

"That any bank of the Federal reserve system may buy or sell farm loan bonds; any member bank of said system may accept time drafts against a deposit of such bonds as security; acceptances of a member bank thus made, or the direct obligation of such bank, maturing within 60 days"—

It is immaterial about that; you can make it 90 days or six months. I think it would be better to make it longer than 60 days—

"when accompanied by farm loan bonds as collateral security not less in face value than the amount of such direct obligation, shall be eligible for discount by any Federal reserve bank."

Now, that at once creates a demand for those bonds by the banks, by investors, and gives an unlimited field. People can put their money into these bonds and have it draw interest; the banks can put their secondary reserves and have that draw interest, because they will know they can take that paper secured by those bonds and get circulating notes from the Federal reserve bank when they are needed.

Mr. Chairman, I have submitted this bill to a number of bankers——

Senator GLASS. You say the banks can have their reserve draw interest?

Senator FLETCHER. They can invest their secondary reserve in those bonds, if this bill is passed.

Senator GLASS. You mean surplus, not reserve.

Senator FLETCHER. Well, what they call secondary reserves.

The CHAIRMAN. Do they also speak of surplus reserve as well as secondary reserve funds—do they use those terms?

Mr. FLANNAGAN. Yes, they use the term, "secondary," meaning it is not the reserve that is required by law.

Senator GLASS. No; it is the legal reserve. A legal reserve does not draw interest. But it is deposited with the Federal reserve bank.

Mr. FLANNAGAN. Right. The money in the banks—I do not want to break into this discussion, Mr. Chairman.

Senator FLETCHER. Go ahead, Mr. Flannagan.

Mr. FLANNAGAN. This would be in the nature of an inducement to the banks to hold it as secondary reserve—some form of investment that would always enable them to get currency or cash for their demands. That would be the purpose. In the meanwhile, while they are holding them, they would be drawing interest.

Senator FLETCHER. Mr. Chairman, I submitted this, as I have said, to quite a few bankers and farm loan associations, and I have made extracts from the letters that I have received—they are very brief—and I would like to have them go into the record. I do not think they will take up much space. They are just extracts from various letters, showing the sentiment of the people throughout the country, and not confined to any particular portion of the country.

The CHAIRMAN. They will be incorporated in the record.

(The extracts referred to are here printed in full, as follows:)

[Extracts from letters received in reference to Senate bill proposing to make negotiable paper, when secured by farm loan bonds, as collateral, eligible through member banks for discount at the Federal reserved banks.]

THE BROADWATER COUNTY NATIONAL FARM LOAN ASSOCIATION,
Townsend, Mont., March 14, 1921.

I received your letter of the 7th instant and have taken special note of its contents, together with the bill you have introduced in the Senate, which I trust you will be successful in getting through in the next session of Congress.

RALPH N. LODGE, *Secretary-Treasurer.*

TIMMER NATIONAL FARM LOAN ASSOCIATION,
Timmer, N. Dak., March 15, 1921.

I am greatly interested and trust that you will be successful in getting through Senate bill 4994. There is every reason to feel that something should be done to make the Federal reserve system of more benefit to the farmer. S. 4994 will do this, and if it is so amended when it is reintroduced that the National Farm Loan Association can have a national union or some kind of a federation covering the whole of the United States, then something worth while will have been done to help the farmer. The Federal land banks have been a great help to the farmer, and the farmer surely needs it. The writer is also president of a farmers' bank and knows what he is talking about when I say that the farmers of at least this part of the country need all the assistance they can possibly muster in Congress.

W. F. KRUEGER, *Secretary-Treasurer.*

KLOVERNOLE FARM,
Epes, Ala., March 15, 1921.

In reference to Senate bill 4994 introduced by you, will say that we are in entire accord with you in the matter.

F. L. MITCHELL,
Secretary-Treasurer Sumter National Farm Loan Association.

WESSINGTON, S. DAK., *March 19, 1921.*

I recently received a letter containing a copy of your bill (S. 4994) which would extend the rediscount privilege to farm loan bonds in order to promote their sale and for other purposes.

The bill has the hearty approval of this association and I assure you that if there is anything that we can do to aid in getting favorable action by Congress we will gladly render assistance.

Your knowledge of the farm loan act eminently fits you as a leader in promulgating legislation pertaining thereto.

DAN. B. WOODRUFF,
Secretary-Treasurer Rose Hill Loan Association.

We believe the above a splendid plan. The farm loan bonds should have discount privilege.

FIRST NATIONAL BANK OF WAVERLY, ILL.,
By A. C. MOFFAT, *President.*

THE FIRST NATIONAL BANK,
Madison, S. Dak., May 26, 1921.

I believe it would also be a real merit in changing the law making the Federal farm loan bonds eligible as collateral security for discount with the several Federal reserve banks. I believe it would create a bigger demand for these bonds as about the only place where there is any money left, from our way of looking at it, is at the Federal reserve banks.

I want to thank you and assure you that any assistance I can be to you, even if I am a country banker, I will do my utmost, and wishing you the best of success with the proposed amendment,

C. E. OLSTEAD, *President.*

HARRISON NURSERIES,
Berlin, Md., May 27, 1921.

The farm loan banks should have every assistance from the Federal reserve banks that they can possibly be given.

ORLANDO HARRISON.

COMMONWEALTH OF VIRGINIA,
DEPARTMENT OF AGRICULTURE AND IMMIGRATION,
Richmond, May 27, 1921.

Our country is, indeed, suffering severly on account of much needed financial help among the farmers. At present agriculture is very much depressed, and conditions are gradually growing worse. This kind of depression affects the stability of our country. It is weakening its power for development instead of giving it strength for further progress. Our people are neither contented nor happy. This feeling should not be permitted a day longer if possible.

I have always appreciated and commended the deep interest and liberal help you have given to the agricultural interests of our country.

G. W. KOINER, *Commissioner.*

EQUITY-UNION CREAMERY,
Raleigh, N. Dak., May 30, 1921.

I believe that your bill as outlined in your speech and the operation of same as explained by Mr. Flannagan's letter to you if enacted into law will be the best thing that can be done to better the farmers' interests and put National Farm Loan Associations into active operation again.

Your bill certainly covers the ground and will, if enacted into law, be a big relief, not only to the mortagaged and debt ridden farmer and farm loan associations, but to all, productive and distributive interests.

E. N. BOSWORTH,
Secretary-Treasurer, Raleigh Farm Loan Association.

FIRST NATIONAL BANK,
Cottonwood, Idaho, May 31, 1921.

A copy of your bill and your speech in the Senate on the 6th of May in favor of amending the farm loan act so as to make the bonds of the Federal land banks eligible as collateral on paper to be rediscounted with the Federal reserve banks. I have examined and believe that such an act would create a wider market for the land bank bonds, and I heartily indorse the bill.

W. W. FLINT, *Cashier.*

PLYMOUTH, IND., *May 31, 1921.*

I feel that this is a meritorious bill and would wonderfully relieve the present situation in the land banks as to shortage of funds. I may add that I feel further that the farm loan act should be amended so as to permit associations to make $25,000 loans.

There is another bill before Congress providing for a revolving fund authorizing the Secretary of the Treasury to use $50,000,000 to make up the farm loan bond. This would help a great deal as a temporary relief and the enactment of that bill would be appreciated by the agricultural interests all over the country.

D. L. MCKESSON.

LARCHWOOD FARM,
Harrison, Ark., June 1, 1921.

Your bill would bring speedy relief to the Federal land banks and the farmers, but will not the same pernicious influence defeat this bill that has influenced the Farm Loan Board to fight any independent movement by the farm loan associations.

C. D. ALLISON.

TOBACCO VALLEY NATIONAL FARM LOAN ASSOCIATION,
Eureka, Mont., June 2, 1921.

I am convinced that the bill you are sponsoring, in regard to rediscount of farm loan bonds, will be beneficial to the system, and I am heartily in sympathy with it.

We farmers as a class become terribly disheartened and discouraged at times, and they have very good reasons for being discouraged at this time, and it seems real good to know that they have some real friends in Congress, who are earnestly and honestly striving to work out the farmers' problems.

S. S. FROST, *Secretary-Treasurer.*

SECURITY TRUST AND SAVINGS BANK,
Cedar Falls, Iowa, June 3, 1921.

The writer has carefully read your speech of Friday, February 6, and believes if the suggestions offered by you are followed out, it will result in a great benefit to the agricultural interests of our country.

Of particular interest to the entire country is your suggestion to amend the second and third paragraphs of section 27, farm loan act, as follows: "That any bank of the Federal reserve system may buy or sell farm loan bonds; any member bank of said system may accept time drafts against a deposit of such bonds as security; acceptance of a member bank thus made, or the direct obligation of such bank, maturing within 60 days, when accompanied by farm loan bonds as collateral security not less in face value than the amount of such direct obligation, shall be eligible for discount at any Federal reserve bank." That would be a wonderful help in facilitating the sale of farm loan bonds.

The people must learn and our legislatures should recognize the fact that agriculture is the basic industry in this country, and I for one sincerely hope that your suggestions may speedily become law.

GEO. S. MORNIN, *President.*

AMERICAN FRUIT GROWER,
Chicago, June 3, 1921.

My views are certainly in line with yours and I want you to know that I will be very glad indeed at any time to join in helping to pass the measure.

SAMUEL ADAMS.

COMMERCIAL SAVINGS BANK,
Reed City, Mich, June 3, 1921.

Your speech in Congress given May 6 has been carefully noted and I must say that one of the quickest ways to ease the country banks is to have the Federal reserve banks underwrite loans made by the farm banks.

I want to compliment you on your breadth of vision.

O. W. CLARK, *President.*

THE CITIZENS STATE BANK,
Earlham, Iowa, June 3, 1921.

I want to take this occasion to commend you in this effort toward the right move, which should mean prosperity to all the American people, if carried out.

Too many of the people in the cities and in the East do not realize that agriculture must be better financed if this country is to continue in prosperity.

Your arguments are exactly right—especially in having the Federal reserve to loan on the farm-loan bonds.

HARRY W. HILL, *President.*

SALEM, OREG., *June 4, 1921.*

The reprint of the Congressional Record sent to us has been carefully considered by myself and some of the officers of the Horticultural National Farm Loan Association, of which I am secretary-treasurer, and we not only heartily indorse the suggestion of extending to banks the privilege of using farm-loan bonds with the Federal reserve banks when utilized as collateral security, but wish also to commend you for introducing this legislation.

A. C. BOHRNSTEDT.

WOODROW, COLO., *June 4, 1921.*

The reprint of your speech in the Senate of May 6, 1921, received and approve of it entirely and thank you for your interest taken in the farmer. I am to-day writing to the two Colorado Senators asking them to support your bill.

J. J. McPHEE,
Secretary-Treasurer South Beaver National Farm Loan Association.

TRADERS CREDIT UNION,
Boston, Mass., June 4, 1921.

The legislation you advocate seems to me to have great merit. I wish to express my keen appreciation, as a citizen, of your championship of the general movement into which this particular bit of legislation fits.

CHARLES W. BIRTWELL, *Treasurer.*

THE BUFFALO GAP BANKING CO.,
Buffalo Gap, Tex., June 5, 1921.

We have just consulted four bankers in this county in regard to the bill, and each of them expressed themselves as favoring the bill. Two of the bankers made objection to the nontaxable feature of the Federal farm loan bonds, which, however, is foreign to your bill.

We wish also to advise that the farm loan act is very pouplar in this part of the country, with business men as well as farmers, and if the National Farm Loan Associations were permitted to carry out the original intentions of the act it would become a

powerful piece of machinery to economize the question of buying and selling and would make a long stride toward settling the social question.

W. C. LASLEY,
Secretary-Treasurer Abilene National Farm Loan Association.

LUMBERMEN'S BANK,
Shell Lake, Wis., June 6, 1921.

It surely would be a great benefit to agriculture if Federal farm loan bonds could be used as collateral for rediscounting with the Federal reserve banks.

J. M. SMITH, *Cashier.*

JUNE 6, 1921.

In our opinion there must be something done by the Government to help the farmers or many of them will loose their farms. They must have long-time low rate of interest loans on their farms and get loan of at least 50 per cent of the value of said land, and they must have this at once.

CHAS. BALLEN,
Cashier Bank of Hale, Hale, Mo.

LIMON NATIONAL FARM LOAN ASSOCIATION,
Limon, Colo., June 7, 1921.

I would like to have at least 100 copies of this speech of yours to distribute in this section of the country and believe it will do a great deal of good toward changing the sentiment of the public toward this wonderful system.

Wishing you success in your efforts to accomplish the needed legislation along the line you have started.

P. O. WELLS, *Secretary-Treasurer.*

THE BANK OF LEWISBURG,
Lewisburg, W. Va., June 7, 1921.

I highly commend its purposes and the effective method thereby provided to secure capital for the farmers at a low rate of interest and maintain the farm loan bonds at par.

We have nearly a million and a half of applications for loans by farmers in this and two adjoining counties now being held up for the reason that the bonds can not be sold at par.

MASON MATHEWS, *President.*

BLUFFTON, OHIO, *June 7, 1921.*

Certainly be O. K. See no valid objection and would help sale of bonds.

THE COMMERCIAL BANK & SAVINGS CO.,
N. W. CUNNINGHAM, *President.*

MONTCLAIR, N. J., *June 7, 1921.*

Experience has shown that this discount privilege is not taken advantage of in normal times, but, in times of stress the strain is greatly relieved by this means.

I sincerely hope that you may be able to put through your amendment embodying this privilege, as I do not think that it can weaken the Federal reserve system and would certainly be of great advantage to the farm loan system.

HARRY McDONOUGH.

THE CITIZENS NATIONAL BANK,
New Philadelphia, Ohio, June 8, 1921.

I am certainly in favor of any legislation which would look to bettering the condition of the American farmer. If there is anyone class of people who are entitled to a better deal than they have been getting, it is certainly the American farmer.

B. H. SCOTT, *President.*

BALDWIN STATE BANK,
Baldwin, N. Dak., June 8, 1921.

With this privilege the small banks of Northwest would be in a position to make investments in these bonds in the months of the year when reserves are ample, and then in spring months or at any time when reserves were depleted, they could use the bonds as collateral for discounts with correspondent banks through the Federal reserve bank. We would therefore be in favor of such legislation.

H. G. HIGGINS, *Cashier.*

FIRST STATE BANK OF ROSCOE (INC.),
Roscoe, S. Dak., June 8, 1921.

We have read your message pertaining to the farm loan bonds.

We heartily recommend such action as this would be a great help for the Northwest, expecially for the producer. Our present farm loan rates are too high, and the farmer can't afford with present prices to operate his farm industry.

We trust that this act will pass, as something must be done for the producer, whom we all depend upon.

CHAS. W. CHRISTEN, *Cashier.*

BIG TIMBER, MONT., *June 8, 1921.*

I have received and read with great interest your speech on the farm loan situation. With most of the contents I can most heartily agree, and I desire to express my sincere appreciation of the invaluable work you are doing on behalf of the rational system for financing the farmer.

W. J. HANNAK.

PRICE COMMERCIAL AND SAVINGS BANK,
Price, Utah, June 8, 1921.

I am heartily in favor of that amendment to the farm loan act as indicated in the Congressional Record of May 6.

The easier we can make it for the farmer to secure loans at a low rate of interest the better the country will be.

CARL R. MARCUSEN, *Cashier.*

THE FIRST NATIONAL BANK,
Pollock, S. Dak., June 8, 1921.

We are very much in favor of the Federal farm loan act and highly commend its purposes and the effective method thereby provided to secure capital for the farmer at a low rate of interest and urge immediate cooperation so that the amendments submitted by yourself to the Senate may be immediately adopted and the necessary help secured for the farmers at once.

Unless the amendment as submitted by you to the Senate is adopted, the local banks in the farming communities will be greatly handicapped, for the reason that their liquid funds will be tied up in what we call a frozen loan and the banks thereby suffering as well as the farmer.

J. J. BROKOFSKY, *Cashier.*

THE FARMERS' & CITIZENS' BANK & SAVINGS CO,
Bucyrus, Ohio, June 10, 1921.

I am in hearty accord with your measure to extend the discount privilege to farm loan bonds when utilized as collateral security.

This measure would surely stimulate the market for the farm loan bonds and afford much additional capital for the financing of farmers needs.

There is urgent need, now, to extend to farmers reasonable credit; otherwise our agricultural interests will be hampered to such an extent as to endanger not only agriculture, but every other interest of our land.

GEO. W. MILLER, *President.*

ST. FRANCOIS COUNTY BANK,
Farmington, Mo., June 10, 1921.

You may count me as in favor of your measure.

R. L. ALLEN, *President.*

UNION TRUST CO.,
Carthage, Mo., June 10, 1921.

The privilege of discounting with the Federal reserve banks, I believe this should be given; in fact, I believe that the Government should reserve a substantial per cent of the funds of the Federal reserve banks for the purpose of financing farm loans, at a low rate of interest to actual farmers (not speculators), and I think this rate should not exceed 4 per cent.

J. C. WYATT, *Secretary-Treasurer.*

ORANGEBURG, S. C., *June 11, 1921.*

The proposal having for its purpose the creating of a demand for farm loan bonds by extending to them the discount privilege, with the Federal reserve banks, would be a great thing for the farm loan bonds, and would be a great service to the farming class of people who are so much in need of assistance at this time.

M. E. ZEIGLER,
Secretary-Treasurer Orangeburg National Farm Loan Association.

THE FIRST NATIONAL BANK,
Mountain Home, Idaho, June 11, 1921.

I believe this measure would to a great extent relieve the banks at this time, and I sincerely hope that your efforts may be crowned with success in procuring the passage of the act.

A. F. ANDERSON, *Cashier.*

MENDON, ILL., *June 11, 1921.*

We heartily agree with you as to its value to farmers particularly and the business interests of the whole country generally.

Hoping you will be able to secure the passage of this bill, you have our best wishes.

CHAS. O. CRANK, *President.*
W. C. TURNER,
MALINDA O. TURNHOFFER,
W. T. CRANK, *Secretary-Treasurer,*
Board of Directors Mount Hebron National Farm Loan Association.

THE FIRST NATIONAL BANK,
Stevens Point, Wis., June 14, 1921.

We believe that the discount privilege should be extended to farm loan bonds. We would favor some provision allowing national banks to put up farm mortgages as collateral with the Federal reserve bank.

J. W. DUNEGAN.

CHILLICOTHE, MO., *June 13, 1921.*

It is O. K. Push it along.

L. A. MARTIN.

PRENTISS NATIONAL FARM LOAN ASSOCIATION,
Prentiss, Miss., June 13, 1921.

All farmers will appreciate the fight you and other Senators are making to maintain the only law that has given the farmers of this country a real financial system whereby they can borrow money on long terms and at low rates of interest.

Strange to see such a law have so many enemies, when the farmer is the backbone of the country. It matters not how flourishing other industries are, when agriculture becomes depressed all other industries lag.

I want to urge upon you and all other Senators and Representatives from the South to keep up the good fight. Legislation has always favored other industries more than it has the farmer, but the time has come that the law-making bodies of this country must see that the farmer of this country gets a fair deal.

E. J. GARDNER, *Secretary-Treasurer.*

ATHEL, IDAHO, *June 13, 1921.*

I have studied it carefully and agree with you as a whole. There should be a law passed to give the associations a special right to join any association for their own protection. The Farm Board at Washington has taken all the authority from the law as passed by Congress and placed same within their own power. I have received more than one threat from them.

I think you are on the right track; keep the switches all the time on the main line and the farmers will back you.

GEO. W. JONES, *Secretary-Treasurer.*

THE FIRST NATIONAL BANK,
Pocatello, Idaho, June 15, 1921.

We believe that the bill which you have introduced should have favorable consideration on the part of the Senate, as it would be a wonderful relief to the country bankers and the agricultural interests.

C. A. VALENTINE, *President.*

THE FIRST NATIONAL BANK,
Craig, Colo., June 15, 1921.

We have read with a great deal of interest your plan for admitting Federal farm loan bonds as security for loans with the Federal reserve bank by members of this system, and we are heartily in accord with this proposed amendment. We are in an agricultural country, where one of the greatest drawbacks has been the high rate of interest charged to the farmers on farm loans from outside loan companies.

C. A. VAN DORN, *President.*

THE RALEIGH COUNTY BANK,
Beckley, W. Va., June 16, 1921.

I thank you kindly for sending us a copy of the Congressional Record containing your speech pertaining to the farm loan act. I have read it with quite a great deal of interest, and I wish to state that I am heartily in sympathy with your ideas.

G. C. HEDRICK, *Cashier.*

THE CITIZENS STATE BANK,
Mobridge, S. Dak., June 17, 1921.

I believe the bill submitted is a good one as anything would be for this territory that would raise some funds for long-time farm loans.

The Federal reserve bank has done mighty well, but the time is too short. What most of our farmers need is a longer time loan.

OSCAR A. OLSON, *Vice President.*

FIRST NATIONAL BANK,
Intake, Mont., June 20, 1921.

It is our opinion that your efforts in behalf of agriculture and the farmer are in the right direction, and we sincerely trust that some results will be derived therefrom and that it will not be another "howl by Congress," as the farmers call it when we try to explain to them, that agricultural conditions are going to improve in view of the fact that Congress is taking an active interest in the subject.

Our customers practically all are farmers, and it goes without saying that if agricultural conditions are bettered we in our business will derive our proportionate share of the benefits.

We have carefully scrutinized the letter by Mr. W. W. Flannagan and can truthfully state, from our experience in country banking, that the conditions described therein are precisely as we find them, and have found them, in the past with very few exceptions.

Your efforts in this direction are certainly worthy of commendation, and we have no suggestions to offer other than as stated above, that we trust your efforts will be productive of actual results.

J. J. ENGELHARDT, *Cashier.*

Senator FLETCHER. There are others, but I am only illustrating the response, rather than giving it in detail. Then I wrote an article, recently, at the request of the Journal of Commerce, of New York. Their representative called on me and asked me to discuss this matter of agricultural finance, and I did. I wrote that letter, which gives my views about it and my argument in a condensed sort of way, and it might be well, without taking up the time of the committee in reading it, to put it in the record as covering more in detail what I think about the matter.

The CHAIRMAN. The article will be inserted in the record.

(The article referred to is here printed in full, as follows:)

SOLVING THE FARMER'S FINANCIAL PROBLEM—REMEDIES THAT ARE WITHIN OUR REACH.

[Written for the Journal of Commerce by Hon. Duncan U. Fletcher, United States Senator.]

Nothing is more important than the production of the Nation's food. To accomplish this on a safe, permanent basis requires a healthy, sound agriculture. Next in importance is a proper, economic distribution of the products of agriculture. Thus, it is clear, production and distribution become the handmaidens of industrial life. It is the Nation's business to have a care for both. It is everyone's business to help the work along. Involved in this production is agriculture. Involved in this distribution is commerce. Therefore agriculture and commerce, in a broad sense, should go hand in hand. Both require capital if they are to be successfully and efficiently conducted. They present distinct problems, and their needs in this respect are different in extent and character.

BEST MEANS OF HELP.

In this discussion, necessarily limited and condensed, we can only deal with the best means, as we conceive, of supplying the necessary capital for the producer. His requirements are very small as compared with commercial business, manufacturing, transportation, and larger enterprises. In the aggregate they amount to six or eight billion dollars, but in individual cases they are almost insignificant. The vital feature in meeting the requirement is that the capital should be provided on terms imposed by the very nature of the business. The producer is under the compulsion of the seasons. His occupation is laborious. He has to contend with the uncertainty of the weather, all the enemies of plant life, high prices for supplies, difficulty of procuring labor, gluts in the market, and a thousand perplexities not necessary to mention. He must, therefore, have ample time in which to repay any loans made him to purchase his farm, improve his property, construct the needed buildings, provide the conveniences and comforts to make his home attractive, and in order to achieve the best results to extend his operations. Inasmuch as his earnings are comparatively small, his financial returns meager, his turnover a matter of months instead of days, it is absolutely necessary that the interest charges he must pay shall be low. He must prosper and be contended that our civilization may survive.

A plan that would supply this capital on easy payments and at low rates of interest must be different from the financial system devised to facilitate commercial business.

WORK OF PAST YEARS.

After sending abroad a commission of two representative men from each State and a cooperative commission of seven appointed by the President (of both which commissions I had the honor to be chairman), for the purpose of investigating for the benefit of agriculture, the systems then (1913) in operation in the older countries of Europe, as well as conditions existing in the United States, Congress passed what is known as the Federal farm loan act, based on their reports and growing out of that work. For the first time in our history we then provided a financial system for supplying the capital needs of those engaged in agriculture separate and distinct from our commercial or banking system.

Under that system $434,362,074.32 has been provided and loaned to farmers in this country at 5½ per cent per annum, with no expense for commissions or other charges, with the privilege of paying off the principal at the rate of 1 per cent per annum and the right to pay any or all the principal at any interest period after five years. In other words, the farmers, if the act can be made fully operative, will be getting their capital accommodations on practically their own terms and at the rate of interest of only 5½ per cent per annum or perhaps less.

OPERATION OF FARM LAND BANKS.

The capital is found by the sale to the public of farm-loan bonds secured by first mortgages on farms lands, valued by appraisers appointed by the Farm Loan Board at 100 per cent more at least than the amount of the loan granted in each case, secured further by the personal obligation of the borrower; further, by the indorsement of the local National Farm Loan Association, of which the borrower is a member, which is chartered by the Farm Loan Board, and further secured by the capital stock of the Federal land bank issuing the bond and also by the guaranty of the other 11 banks of the system. When the mortgages are tendered and approved as first liens on real estate at least double in value the amount of the mortgages the Federal land bank applies to the Farm Loan Board for authority to issue bonds sufficient in amount to supply additional borrowers, pledging these mortgages as collateral security. Being then authorized, the bonds are issued at 5 per cent interest and sold to the public. The proceeds go to farmer borrowers, respectively, in the full amount of the mortgages. It is thus seen that the bonds must be sold before the loans can be continued. The capital is supplied from the proceeds of these bonds. If the bonds can not be sold, the capital can not be found and the loans can not be made. If the bonds must bear a higher rate of interest in order to cause demand and find purchasers, the borrower must pay that higher rate of interest. The law provides the borrower must pay the bank the amount of interest the bonds bear plus the cost of administering the system, which shall not exceed 1 per cent, and provides, further, that the farmer borrower shall not be required to pay more than 6 per cent per annum interest. Thus far the cost of administration has not exceeded one-half of 1 per cent, and when the business raches the dimensions it ought to, and will reach, this cost should not exceed one-quarter of 1 per cent.

EXEMPTION FROM TAXES.

In order to keep this interest down and thus meet the necessities of the producer these bonds are made exempt from all taxation. While it is estimated there are outstanding some $16,000,000,000 of tax-exempt securities, and while these must be diminished and future issues prohibited, even though a constitutional amendment is necessary, these farm-loan bonds must carry that tax-exempt feature, because the capital needs of the producers must be supplied on the basis of a low rate of interest. The bonds must be sold in order to get the capital required by the farmer. They must bear a low rate of interest, such as the business of agriculture will justify; otherwise the proceeds can not be utilized advantageously and the purpose of the act has failed. The problem is plainly to create a market for the bonds. In normal times the public and investors would absorb them readily. Now, when large quantities of high-class securities are on the market, bearing rates of interest exceeding 6 per cent, there is not sufficient demand for farm-loan bonds to furnish the money the farmers require. It is perfectly feasible to create that demand.

The bill which I have introduced (S. 620) and which is now with the Committee on Banking and Currency will do it. It simply provides that acceptances or promissory notes of member banks, with farm loan bonds in the amount of the notes as collateral security, shall be eligible for rediscount by the Federal reserve banks, and that eligible bank acceptances may be given against the deposit of such bonds as security. The moment that is done the banks all over the country will want those bonds. The demand for them will become practically unlimited. These bonds are secured in the way I have mentioned. They are absolutely safe. They bear interest at 5 per cent and are exempt from all taxes. Negotiable paper secured by such bonds is fully protected. Why should such paper not enjoy the rediscount privilege that paper arising from commercial transactions enjoys?

OBJECTION TO REDISCOUNTING.

The objection offered to this proposed amendment to the Federal reserve act is that it would violate the principle of that act, which is that circulating notes shall only be issued when secured by commercial paper of short maturity, "self-liquidating" in character—that is, payable at maturity from the proceeds of the commodity which changed hands when the paper was given.

My answer is, first, the farmer has, under the farm loan system, been able to make his asset—his real estate—liquid in character by its taking the form of this negotiable bond. This paper, secured by such a bond, is "self-liquidating" just as much as is any commercial paper now eligible for rediscount. In the next place, every banker knows the principle of "self-liquidation" is not correct, either in theory, under the definition given by the Federal Reserve Board of commercial paper, or in practice,

by his own experience. The Federal reserve bank looks to the member bank, not to the property sold, and the member bank looks to the maker of the note, not the commodity involved in the original transaction. To illustrate: If A sells B a horse or a bale of cotton or an automobile for $500 and takes B's note at three months for the amount, A can take that note to his bank and discount it, and his bank can forward it to the Federal reserve bank and rediscount it, receiving circulating notes therefor. If in 30 days B sells that same horse to C for $500 and takes his note at three months, that note may take the same course as the first. If 30 days thereafter C sells the same horse to D for $500 and takes in payment D's note at three months, that note C may discount and his bank rediscount with the Federal reserve bank in the same way. The Federal reserve bank will now have $1,500 in commercial paper, three notes due at intervals of 30 days, and there may be a dead horse with which the self-liquidating process is to be effected. Of course, the idea of rediscounted commercial paper being "self-liquidating" is worse than a mere theory—it is a myth.

BASIS FOR PAPER.

Can anyone reasonably contend that the paper I have mentioned in the transactions with the horse stands on a sounder basis, a better principle, than similar paper having attached to it as collateral a farm loan bond, for which there is a ready market in amount equal to the face of the note in every instance? The former paper is now, under the law, eligible for rediscount, whereas it is claimed the sacred principle of that law would be violated by amending it so as to place paper with farm loan bonds as collateral on the same footing. It seems to me such a claim is absurd. If this amendment is enacted by Congress, it will give the farmer some of the indirect benefits of the Federal reserve act. It will, in a way, connect the Federal reserve act with the farm loan act, whereby the benefits of the former, now enjoyed exclusively by the trader, may be shared by the producer, to the advantage of both.

It will create a constant and broad market for farm loan bonds. I am assured that the city bank or banker, the big insurance and trust companies, indeed, all dealers in securities or traders in debts—and banking is but another name for trading in debts—will find it most convenient to have always available a security which, under any and all circumstances, may readily be converted into cash.

SOURCE OF DEMAND.

Nor will this demand come alone from the banking fraternity, whose business is the buying and selling of debts, but from large and small investors as well. As soon as it is understood that farm loan bonds will also command a banker's acceptance, and that these acceptances under the Federal reserve act entitle the holder to the lowest rate of discount at the Federal reserve banks, such bonds will be sought by the savings banks and by big industrial and mercantile establishments whose business requirements are such that only at certain seasons of the year must they have ready cash. They will not find it necessary to keep large bank balances idle or bearing a nominal rate of interest, for farm loan bonds will then be a most desirable substitute for such balances, yielding a greater profit.

A small investor will also find these bonds a profitable substitute for time deposits, being in convenient denominations and yielding a better rate of interest, yet always available to produce cash. The privilege or benefit this bill asks for farm loan bonds is now enjoyed by United States bonds, and is no new experiment in finance. Surely it is not asking too much for that industry, on which all others are dependent, in which 45,500,000 of our people are engaged, operating property worth $78,000,000,000, yielding products of the value of $20,000,000,000 annually, to insist that it be afforded facilities equal to those afforded any other industry or business for realizing its needed financial accommodations.

PERSONAL CREDIT NOT REQUIRED.

If this is done, the need for short-time personal credit will soon disappear. The farmer will be able to proceed on a cash basis as to his current expenses. He will not be obliged to pay two prices for supplies he now buys on credit. By a proper use of the capital he can obtain under the farm loan act his earnings will be such that he can meet the interest and amortization charges and lay aside sufficient to carry him until his next crop comes in.

Efforts to make it easy to obtain credit for everyday demands will tend to encourage going into debt, and this should be avoided.

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Once his farm is acquired and put in thorough order and its full earning power is developed at a charge so low that he can not fail to meet it and on such terms as to relieve him of all care and anxiety, his main problem is solved, and his daily current expenses, he will soon find, by the exercise of a little foresight, he can readily manage.

Senator FLETCHER. Mr. Chairman, perhaps it would be better not to go into the merits of the other bill until we have finished with this one. I would like to ask Mr. W. W. Flannagan, who is a banker, and experienced in business, and who was formerly secretary of the Farm Loan Board, to, in the first place, more particularly answer the objections of the Federal Reserve Board to this bill, and perhaps their objections ought to go into the record also. I have no objection to that course being pursued. They ought to go in somewhere. They wrote a letter to the chairman, and they pointed out certain objections to this proposed legislation. I submitted that letter to Mr. Flannagan, and it might be well to insert it in the record. Of course, I can put it in at any time.

The CHAIRMAN. As part of your statement you, of course, can refer to these matters.

Senator FLETCHER. I have submitted these papers to Mr. Flannagan. He can supply them if the committee wants them to go in. I am not particular about it, however.

Senator GLASS. Of course it should go in. The record would not be complete without it.

Senator FLETCHER. I think it had better go in, but at this point I will ask Mr. Flannagan to make a statement with regard to that, and give his views regarding this legislation.

The CHAIRMAN. The papers you refer to may be inserted in the record.

STATEMENT OF MR. W. W. FLANNAGAN, FORMER SECRETARY OF THE FARM LOAN BOARD.

The CHAIRMAN. Mr. Flannagan, will you address yourself to these objects that have been referred to?

Senator FLETCHER. Mr. Chairman, I suggest that Mr. Flannagan give his views respecting this proposed legislation, and also with respect to the objections raised to it by the Federal Reserve Board.

Mr. FLANNAGAN. Mr. Chairman, I have already expressed my views with respect to this bill in a letter which I addressed to Senator Fletcher, who had that letter published in the Congressional Record. So that if you will put that letter in your record it will really state my views, unless you want me to read it.

Senator FLETCHER. It is not necessary to read it. I ask that that letter go into the record at this point.

The CHAIRMAN. That letter will not require any extensive repetition here, I assume.

Mr. FLANNAGAN. No, sir.

Senator FLETCHER. I will say that that letter was written, however, before the letter from the board to the chairman came to my notice.

Mr. FLANNAGAN. This letter was written before I had seen the letter that was written to the chairman of this committee—Senator McLean—by the governor of the Federal Reserve Board. I think that really my letter answers all the objections that the governor makes in his letter, though I propose to comment on the governor's letter later on. If you will allow that to go in the record, I will give it to the stenographer.

The CHAIRMAN. If that is acceptable to the committee let it appear in the record. (The letter referred to is here printed in full, as follows:)

NATIONAL UNION OF FARM LOAN ASSOCIATIONS,
Washington, D. C., April 15, 1921.

Hon. DUNCAN U. FLETCHER,
United States Senate, Washington, D. C.

DEAR SENATOR FLETCHER: I have examined with a great deal of interest the provisions of your bill (S. 4994, 66th Cong.) and highly commend its purposes and the effective method thereby provided to secure capital for the farmer at a low rate of interest, while preventing the farm loan system from becoming an annual charge against the revenues of the Government, in the form of forced purchases of farm loan bonds.

Your prominent connection with the rural credit movement from its very inception as chairman of both of the commissions which were sent abroad to gain information and make a study of the subject, as author of the first rural credit bill introduced into Congress, as member of the Senate Banking and Currency Committee of the Sixty-third Congress, which secured a great amount of valuable testimony on the subject through the hearings it held, as member of the same committee of the Sixty-fourth Congress, which considered and reported the bill that afterwards became the farm loan act, as member of the conference committee which gave final effect to this work, and your consistent advocacy of every public measure which has had for its purposes the advancement of the welfare of the American farmer entitles any measure proposed by you on this subject to the most favorable consideration from the American people.

I concede that the business of agriculture is fundamental and that its propsperity is a necessity for the continuation and advancement of our civilization, and that it is the duty of the Government to provide, if necessary, the means, at the expense of all the people, whereby this prosperity is assured to those who are worthy and willing to engage in this fundamental industry, but I think it would be a mistake to make any system of finance dependent for success upon annual appropriations from the Treasury, even if such appropriation results in an undoubtedly sound investment yielding in normal times a profit on such investment.

In other words, while it is sound from an economic viewpoint in a democratic government to tax all the people in order to be certain that those engaged in the production of the necessities of life find it sufficiently attractive to continue that pursuit so that the adherents of agriculture remain contented and happy, and its development keep pace along other lines of human endeavor, it is not necessary to adopt this procedure, if other means can be found, justified by our experience, wholly in keeping with our system of finance, whereby the farm-loan system may be made independent of receiving recurrent Government aid, dependent upon the changing views of each succeeding Congress. To make it so dependent is to leave the system incomplete in itself as a system of finance, and invites continual criticism, if it does not spell failure.

I think you have found "the other means" in your bill, the merits of which I purpose to discuss in this letter as I see them.

The ultimate success of the farm loan act in serving its avowed purpose "to provide capital for agricultural development" must, of course, depend upon the ability to sell readily farm-loan bonds bearing a low rate of interest at not less than par. The restrictions thrown around the issuance of these bonds under the provisions of this act leave no doubt as to the security they offer as far as human foresight can make them secure, and it is not necessary to discuss here the nature and value of such security.

The experience of the world in the collection of debts from the time debts were first known and interest charged for their deferred payment, demonstrates beyond question that productive real estate is the surest and safest of all security, never failing except with the Government which defends the title thereto, and not always then.

The very meaning of the word "real" indicates the permanence and safety of the security which real estate affords.

Now, in order that these bonds shall sell readily, there must be a constant and continued demand. Demand comes from human desire, a state of mind, a wish to be benefited. The usual benefit offered for the loan of capital is profit in the form of interest, and though it is a recognized economic fact that the higher the interest rate the lower the security, periods in financial history occur—especially following the great destruction of capital which every war causes—that irrespective of security, capital, because of its scarcity, demands and commands higher rates of interest than often the business of the borrower can afford to pay. Especially is this the case when Governments become borrowers in large amounts to meet the devastation of wars.

We have just this condition which confronts us to-day in the case of farm-loan bonds. The markets are flooded with offerings of high-class securities issued by governments, railroads, industrial, and mercantile establishments, every form of human endeavor, all seeking the use of capital at higher rates of interest than the business of farming will justify, more than the farmers can pay and properly live. Yet he must live and prosper. Yea, more than that, he must be satisfied and contented, or American civilization dies in a supreme reign of chaos.

In finding a market for farm-loan bonds we can not compete on the basis of profit derived from the rate of interest offered; and the demand must therefore come from some other right, benefit, or advantage which they offer. The genius of Salmon P. Chase solved a similar problem for the Government, when during and at the close of the Civil War the necessity of floating large volumes of United States bonds arose, in order to fund the indebtedness caused by the war, at a lower rate of interest. United States bonds were selling far below par; there was no demand to justify a large issue; greenbacks were at a heavy discount and gold was selling at a premium. Chase saw some other inducement than high interest was necessary, that he could not compete on this basis, so he gave to United States bonds the circulating privilege. He allowed national banks to deposit with the Comptroller of the Currency United States bonds and the privilege of the issuance of circulating notes against such deposits. He utilized the bank function of note circulation to supply the pressing necessities of the Government, and later, by taxing State-bank notes out of existence,

gave us a uniform currency, circulationg at par throughout the whole country, which continues to this day. The result of this advantage or benefit was that United States bonds bearing 2 per cent interest have commanded a premium on the market, while similar bonds bearing a much higher rate of interest sold for less than par. This shows conclusively that advantages or benefits may be given under the law which will create a demand for bonds, irrespective of the rate of interest they bear; or, in other words, the security of the principal being assured, the rate of interest the bonds bear is not always the governing factor in creating a demand and establishing the market price.

The Federal reserve law has now changed this collateral benefit held by national banks and practically given a monopoly of the circulating privilege to the Federal reserve banks. Under the operation of this law, the bank function of discount is interwoven with the bank function of circulation or note issue, so that no circulating notes can be obtained as a medium of exchange unless preceded by a discount of commercial paper at a Federal reserve bank.

Such discounts create reserves for the other member banks, so that in order that circulating notes may be had for the purposes of trade the banks must draw against their reserve balances with the Federal banks. They can not count the circulating notes thus drawn as a part of their lawful reserve, nor can they restore their reserve by a redeposit of these notes, so that in order to obtain circulating notes to meet their customers' requirements for this medium of exchange the banks must convert "reserve funds" in the form of bank balances or credit with the reserve bank into "nonreserve funds" and replenish the same by another discount. These balances are created by discounts, as stated; they are called rediscounts, and must consist of paper previously discounted by a member bank of a particular nature—that is, such paper must represent a debt incurred by the sale and transfer of a commodity, or, in other words "commercial paper." The Federal reserve act is based on the theory that there never can be any excess of commercial paper, and is intended to afford the means whereby such paper can always be readily converted into cash, thus encouraging and facilitating business.

But observe that the business thus intended to be facilitated is the business of trading—the buying and selling of commodities on time, the extension of credit for short periods. It is the merchant who is intended to be and who is benefited. He is the man who is afforded the credit facilities whereby he can extend to his customer time for deferred payment.

Now, the farmer is not a trader nor a merchant. He does not buy and sell his products for profit. Through utilizing the forces of nature he creates the products which the merchant buys and sells for his own profit. The farmer must sell when his product is ready for market, and he sells such product usually once a year.

What your bill does is to give the farmer some of the indirect benefits of the Federal reserve act. It affords a point of contact between the Federal reserve act and the farm loan act whereby the benefits of the former, now held exclusively by the trader, may be shared by the producer. And in extending this benefit to the producer it does not lessen but increases the benefit to the trader. The benefit to both is increased through the medium of the commercial banks, which in turn are also benefited through the additional facilities they are thus enabled to extend to all classes of business interests.

This benefit comes to the farmer through the farm loan act by creating a constant and broad market for farm-loan bonds. It comes from creating a demand for such bonds from the banking and commercial interests of the country. Every national bank and indeed every member bank of the Federal reserve system will want to hold constantly some of these bonds as a secondary reserve, an asset that is always convertible into cash under your bill, irrespective of the maturity, and always bearing a reasonable rate of interest until so converted. It is not an idle or noninterest bearing reserve, as is the case with money in the vault or balances with the Federal reserve banks. Every country banker will readily appreciate the advantage of having such an asset. He may not have the opportunity in his locality to keep on hand at all times "commercial paper" to meet the requirements of the Federal reserve bank when he needs a rediscount. His "average balance," which the city bank requires him to keep in order to entitle him to a discount, may not have been "satisfactory" to the city bank. Indeed, having farm-loan bonds among his assets removes the necessity of "keeping balances" for the purpose of obtaining discounts, and they pay him a better rate of interest than he can get on such balances. He will need such balances only for the purpose of supplying "exchange." He will have a feeling of comfort and independence which he can not have when dependent upon the convenience or necessities of his city bank correspondent or perhaps the will or the whim of some officer thereof. The rate of interest he will have to pay on his rediscounts with farm-loan bonds as collateral is public knowledge, fixed beforehand, and not dependent upon market fluctuations in interest rates caused by stock-exchange dealings or otherwise.

The city bank or banker, the big insurance and trust companies, indeed, all dealers in securities or traders in debts (and banking is but another name for trading in debts), will find it most convenient to have always available a security which, under any and all circumstances, may readily be converted into cash.

Nor will this demand come alone from the banking fraternity, whose business is the buying and selling of debts, but from large and small investors as well. As soon as it is understood that farm-loan bonds will always command a banker's acceptance, and that these acceptances under the Federal reserve act entitle the holder to the lowest rate of discount at the Federal reserve banks, such bonds will be sought for by savings banks and by big industrial and mercantile establishments whose business requirements are such that only at certain seasons of the year must they have ready cash. They will not find it necessary to keep large bank balances idle or bearing a nominal rate of interest, for farm-loan bonds will then be a most desirable substitute for such balances, yielding a greater profit.

A small investor will also find these bonds a profitable substitute for time deposits, being in convenient denominations and yielding a better rate of interest, yet always available to produce cash.

The privilege or benefit your bill asks for farm-loan bonds is now enjoyed by United States bonds and is no new experiment in finance.

OBJECTIONS CONSIDERED.

You are sure to have used as arguments against your bill, if not urged as fatal objections which should defeat it, (1) that it amends the Federal reserve act, and (2) the claim that it is not in keeping with the principles of that act, which is based upon having quick assets held by the Federal reserve banks in the form of "self-liquidating" commercial paper of short maturity.

These objections, when analyzed, have no real force, as I shall endeavor to show. It is true that your bill amends the Federal reserve act, and it should be so amended.

The Federal reserve act was made for the banker in order to enable him to extend short credits to the merchant or trader in commodities. It does not provide directly for the farmer, because it deals in liquid capital, while the farmer must have credits of long duration. But it does not follow that the trader should have a monopoly of the benefits of the use of liquid capital. If the farmer can put his capital, which is his land, in a form whereby it becomes liquid as between the traders—i. e., capable of being transferred rapidly—then he becomes the indirect beneficiary of such trading.

An illumination of this thought is shown in the case of a banker who issues a circulating note for value. The note passes from hand to hand effecting transfers of property indefinitely, but the banker who originally issued it is the beneficiary, and continues so, as long as the circulating note remains outstanding.

To make a constant and steady market for farm-loan bonds as your bill will do is to make the farmer's capital liquid, and thus enable him to share indirectly the benefit of the Federal reserve act, now enjoyed by the merchant.

SELF-LIQUIDATING PAPER.

The theory on which the Federal reserve act is constructed, with reference to the issuance of circulating notes, is that the security for such notes must be commercial paper, because such paper is "self-liquidating," meaning by such expression that it is paid at maturity from the proceeds of the commodity which changed ownership when the paper was given.

If this were true in practice, the theory would be all right; but every banker knows it is not true, either in theory under the definition given for commercial paper by the Federal Reserve Board or in practice by his own experience.

Under our practice there is no such thing as "self-liquidating" paper. No banker attempts to follow the proceeds from the sale of a commodity which has been purchased with so-called commercial paper, unless the commodity so purchased is specifically pledged, as in the case of a bill of lading or a warehouse receipt attached, and then it is not treated as commercial paper, but as collateral-secured paper.

Again, where transfer and delivery of a commodity is made upon the execution and delivery of a promissory note in settlement, no retention of title to such commodity is made by the seller and no legal obligation exists on the part of the buyer to use the proceeds of the commodity in payment of the note, except in cases of commodities or property sold on the installment plan; and in such cases no one would have the temerity to offer such paper for rediscount at a reserve bank.

I sell you a horse or a bale of cotton or an automobile for $500, and you give me your note at three months. I take the note to my bank and discount it, and my bank rediscounts it with the Federal reserve bank. In 30 days you have an offer from another Senator to give you his note for $600 at three months for the same horse, which you accept in settlement, and discount the note with your bank, which in turn rediscounts it. This Senator, feeling he would rather have an automobile, and having an offer from another buyer, after 30 days' use, to give him a note for $500 payable in three months for the horse, concludes to sell, and discounts the buyer's note at his bank, which also rediscounts.

Now, the Federal reserve bank has $1,600 in commercial paper, three notes due at intervals of 30 days, and there is one horse worth $500 with which the self-liquidating process is to be effected. A "reductio ad absurdum." The truth is that this "self-liquidating" idea is a "catchpenny" phrase and does not exist in our banking methods. The nearest approach to it is in the case of international bankers who require payment under commercial credits which they issue against the delivery of "documents" which represent the title to imported goods; but even in these cases "trust receipts" are substituted for payment more frequently than otherwise.

Self-liquidation or payment at maturity of commercial paper as the basis for rediscounts and note circulation is a myth, and the recent experience of the Federal reserve banks and member banks proves this assertion to be true.

If the rediscounted "commercial" paper was self-liquidating there would have been no call for deflation of credit by the Federal Reserve Board, as the discount line of the member banks would have been automatically reduced, giving place for new rediscounts by the Federal reserve banks without any increase in the aggregate amount of such discounts.

It is because of the fact that the so-called commercial paper held by the Federal reserve banks is indirectly renewed and continued in force by the member banks, and is not self-liquidating, that the demand comes for deflation or reduction of the ever-increasing amount of "bank credit" represented by "bills and notes discounted" on one side of the bank's ledger as assets, and on the other side by "deposit or rediscounts" as liabilities.

It is apparent, therefore, that the liquidity of assets demanded for the reserve banks comes only from the short maturities of their discounted paper, the opportunity thus being afforded to require payment at short intervals, and not from so-called self-liquidation. Your bill provides for paper of short maturity. It is provided that the paper which the Federal reserve banks may rediscount with farm-loan bonds as collateral security shall be the obligation of a member bank, and that the maturity shall not exceed 60 days.

It should be noted that farm-loan bonds can not come into existence until they have behind them actual productive property double in value the face amount of such bonds, and there is in consequence a limit to the amount which may be issued while there is no limit to the amount of so-called commercial paper that may be issued; nor is there any means of preventing an unlimited amount of such paper from being issued with each transfer of the same identical property, thus duplicating paper as the representative of the full value of such property with each transfer and issuance.

Now, which class of paper is likely to be most liquid in the hands of the reserve banks? That made by a member bank with farm-loan bonds as collateral security attached or that made by a customer of the member bank with the bank's indorsement with no collateral attached? In both cases the member bank is the one to bear the burden in time of deflation or when the reserve bank feels it necessary or desirable to reduce the amount of its circulating notes. In one case the member bank is limited to the maker and indorsers as the only source from which to collect. In the other case the member bank has the whole commercial world from which to collect by a sale of the collateral; and it must be remembered that the privilege of rediscount which is asked will cause such a constant and general demand for these bonds that they will find a ready market at par or at a premium whenever offered.

Yours, very truly,

W. W. FLANNAGAN.

Mr. FLANNAGAN. The letter from Gov. Harding to Senator McLean, under date of February 16, is made in response to a request by Senator McLean to have an expression of views of the Federal Reserve Board in reference to Senate bill 4994, which was the number of the bill at the previous Congress. It is now Senate bill 620.

Senator FLETCHER. I will say that it is the same bill that was introduced at the former Congress, but was never acted upon and had to be reintroduced.

The CHAIRMAN. I think it would be well to incorporate that in the record.

Senator FLETCHER. He refers to his previous opinion regarding the other bill, which of course applies to this.

(The letter referred to is here printed in full, as follows:)

FEDERAL RESERVE BOARD,
OFFICE OF THE GOVERNOR,
Washington, May 9, 1921.

MY DEAR MR. CHAIRMAN: Receipt is acknowledged of your letter of May 7, 1921, in which you request my views with regard to Senate bill No. 620.

This bill is identically the same as Senate bill No. 4994 introduced in the Senate at the third session of the Sixty-sixth Congress on February 9, 1921. At Your request the Federal Reserve Board on February 16 addressed a letter to you setting forth its reasons for believing that the enactment of Senate bill No. 4994 of the last session would be most unwise.

There is inclosed herewith for the information of your committee a copy of that letter which represents the views of the Federal Reserve Board with regard to Senate bill No. 620.

Yours, very truly,

W. P. G. HARDING,
Governor.

Hon. GEORGE P. MCLEAN,
Chairman Committee on Banking and Currency,
United States Senate.

FEBRUARY 16, 1921.

Hon. GEORGE P. MCLEAN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: You have requested an expression of the views of the Federal Reserve Board with regard to Senate bill 4994.

The bill authorizes "any bank of the Federal reserve system" to buy or sell farm loan bonds, and authorizes any member bank to accept time drafts against the deposit of such bonds, and provides that such acceptances, or the direct obligation of a member bank maturing within 60 days when accompanied by farm loan bonds as collateral security not less in face value than the amount of such direct obligation, shall be eligible for rediscount by Federal reserve banks.

In so far as concerns the authority of member banks to purchase farm loan bonds, the bill if enacted would be without effect, for member banks now have authority to buy and sell such bonds under the provisions of section 27 of the Federal farm loan act. On account of the other provisions of the bill, however, the Federal Reserve Board is opposed to its enactment.

Bankers' acceptances should be the most liquid class of bank paper and, consequently, should be issued only for the purpose of financing commercial transactions, the proceeds of which may be expected to liquidate the acceptances. Recognizing this fundamental principle, Congress in enacting and amending the Federal reserve act has given to national banks the power to accept only those drafts which grow out of certain clearly defined commercial transactions. The limitations as to the character of the transactions out of which the acceptances must arise were necessary to the development of the acceptance business in accordance with sound banking principles, and those limitations are, in the board's opinion, still necessary to the maintenance and further development of that business. Even with the wise restrictions which limit the power of national banks to accept drafts at the present time, the Federal Reserve Board finds it necessary to use great care in framing its regulations and in issuing its rulings to guard against the abuse of the acceptance privilege.

Because of the self-liquidating character of the transactions out of which they arise, and the credit of the accepting banks, bankers' acceptances are bought and sold in the open markets at rates generally lower than any other class of commercial paper. To permit bankers' acceptances to be made for purposes other than the financing of strictly commercial transactions would not only violate fundamental principles of banking but would make impossible the development and maintenance of a satisfactory open market for such acceptances.

It is apparent, of course, that acceptances made against the deposit of farm loan bonds would not be liquid, but, on the contrary, would grow out of a very unliquid type of investment transaction. Farm loan bonds are secured by real estate, and those which have been issued up to the present time mature 20 years from date of issue. Unlike acceptances issued to finance commercial transactions, acceptances against

the deposit of investment securities would not be automatically self-liquidating and would, therefore, have to be renewed from time to time. This would tend to induce a permanent state of inflation of "frozen" credits and to the extent of such inflation would diminish the banking resources available for commercial and agricultural transactions. In this connection, it is significant to observe that member banks are not permitted to accept drafts against the deposit of bonds of the United States Government.

The same reasons which have been urged against permitting member banks to accept against deposits of farm loan bonds may be urged with even greater force against making eligible for rediscount by Federal reserve banks acceptances of this character and direct obligations of member banks secured by farm loan bonds. The paper acquired by the Federal reserve banks is the collateral security for Federal reserve notes, which constitute by far the greater part of the paper currency of the country. It is most important, therefore, that the liquid character of the paper which may be purchased by Federal reserve banks would be maintained. To the extent that the acceptances and direct obligations described in the bill were used as collateral for Federal reserve notes, the elasticity of and the power of control over such notes would be diminished. Perhaps the prime purpose of the enactment of the Federal reserve act was to provide an elastic currency, and any legislation which would have the effect of making the currency less elastic would, in the board's opinion, be most unwise.

Yours, very truly,

W. P. G. HARDING, *Governor.*

Mr. FLANNAGAN. This letter from Gov. Harding to Senator McLean, in part, is as follows:

"Because of the self-liquidating character of the transactions out of which they arise, and the credit of the accepting banks, bankers' acceptances are bought and sold in the open markets at rates generally lower than any other class of commercial paper. To permit bankers' acceptances to be made for purposes other than the financing of strictly commercial transactions would not only violate fundamental principles of banking but would make impossible the development and maintenance of a satisfactory open market for such acceptances."

My objection to that is that it states, or asserts as a fact, that the fundamental principles of banking are violated, when in point of fact it does not point to what principles of banking are violated. I deny the assertion that any fundamental principle of banking is violated.

Senator GLASS. It is an utter violation of the principles of banking throughout the civilized world.

Mr. FLANNAGAN. What is a violation of the general practice of banking?

Senator GLASS. Why, the acceptances on noncommercial transactions of invested securities.

Mr. FLANNAGAN. I do not think that is true.

Senator GLASS. Before you proceed with that, what have you to say about the statement of the governor there, whether it is or is not a fact that the banks of the Federal reserve system already under the law textually have the right to buy these bonds?

Mr. FLANNAGAN. I will state it. The member banks, under the Federal reserve system, have the right to buy and sell these bonds. The Federal reserve banks have not the right. Senator Fletcher's bill gives the Federal reserve banks the right also to buy them. That is the only difference. That law as it stands to-day allows member banks to do it. Senator Fletcher's bill allows any bank of the Federal reserve system to do it. That is the difference.

Going back again to the fundamental principles of banking, I think that all banking is merely a dealing in debts.

Senator GLASS. Yes; but there are very radically different species of debts. There is an investment debt, a long-time debt, and there is what is known as a liquid transaction in indebtedness, upon one of which species of indebtedness it takes a very long time to realize, and upon the other it takes a very short time to realize. We think we have made farmers' assets available when we have provided for these bonds to be issued against mortgages on their property.

Mr. FLANNAGAN. The theory upon which the Government goes is that commercial paper is self-liquidating. I think that is a general expression that is very often used with reference to commercial paper. I maintain that there is no such thing as negotiable self-liquidating paper; that it does not exist at all. It is a mere myth, a mere catch-penny phrase. No paper is self-liquidating. Bankers do not take paper with any view of looking to the commodity that is transferred when the commercial paper comes into existence.

Senator GLASS. But they do take paper with strict reference to the probability of the money being paid at the date of maturity.

Mr. FLANNAGAN. Right. But the liquidation comes from the short maturity and not from the security.

Senator GLASS. Oh, of course.

Mr. FLANNAGAN. And that is the purpose of taking short paper.

Senator GLASS. Well, that needs modification. If a security is not more or less of a liquid nature it is utterly worthless to meet the account at maturity. If you can not sell the security and realize upon it, it is useless for commercial purposes.

Mr. FLANNAGAN. But you can sell the security if you create any market for it, as you will do by this very act itself.

Senator GLASS. I do not agree with you.

Mr. FLANNAGAN. You will have a liquid security which commands a market all over the country.

Senator GLASS. I do not agree with you. The only extension of the market would be to authorize the Federal reserve banks—and I would emphasize the word "reserve" banks—to authorize the Federal reserve banks to buy these bonds. The member banks will have the right under the statute to purchase. So that is the extent to which you would allow the enlargement of the market.

Mr. FLANNAGAN. Oh, not at all.

Senator GLASS. In what other respect would you enlarge it?

Mr. FLANNAGAN. You create a demand from every commercial bank in the United States for these bonds—that is, you may create it.

Senator GLASS. The member banks already have the right to buy them.

Mr. FLANNAGAN. The member banks have the right to buy them, but member banks can not utilize the bonds except to put them in their assets at 4½ per cent. When you give them the right to hypothecate them as collateral security, you create a new demand for them.

Senator GLASS. No; you do not; you simply clog up with long-time investment securities the reservoirs of the reserve bank system—break it down, and make it impossible to respond to current commercial or agricultural transactions.

Mr. FLANNAGAN. That is a theory with which I do not agree at all. I maintain that you have got to separate the difference between the collateral security, which is a negotiable bond, and has a market price, as much so as any commodity, from the fact that this bond is issued on long time. You do allow it in the case of Government bonds, irrespective of maturity.

Senator GLASS. Right on that point I do not think there is anybody in this country who knows any better than you, because you were frequently in contact with me when I was preparing the Federal reserve banking bill—and you know perfectly well that we discussed for days and nights the feasibility of permitting even United States bonds to be used as collateral security when the indebtedness of the Government was less than $1,000,000,000. You know perfectly well that if the members of that committee or the two branches of Congress could have conceived that a time would come when there would be $24,000,000,000 of outstanding United States bonds, they would never have put United States bonds in the bill as collateral security, because it means the utter destruction of the reserve element of the reserve banking system, and converts it into an investment banking system.

Mr. FLANNAGAN. You do not imagine for one single minute that the banks are going to undertake to handle the whole $24,000,000,000, and to set it up as collateral security?

Senator GLASS. On the contrary, there is no sane commercial banker in the world who does not try to get rid of his investment securities, and the plea of the Treasury and the plea of the greater banks of the country, during all the Liberty loan campaigns, was to get rid of the United States bonds and to have the public absorb them and get them out of the bank vaults.

Mr. FLANNAGAN. With reference to what you said, when you discussed the matter, that it was doubtful when you had a billion dollars of bonds, but now it makes it very much more dangerous because you have $24,000,000,000—I want to say, as you will remember, that in point of fact this very amendment that is proposed by Senator Fletcher, passed the Senate in the Sixty-third Congress; it passed the House of the Sixty-third Congress, and the reason that the bill did not then become a law was that there was a difference between the Senate and the House with reference to the annual purchase of farm-loan bonds of $50,000,000, which Mr. Buckley insisted upon and which Senator Hollis was not willing for. Then, again, in the Sixty-fourth Congress, the same amendment passed the Senate and was defeated by you in the conference.

Senator GLASS. And I hope it will be again, because it means the destruction of the Federal reserve banking system, which when accomplished will not only not help the agricultural interests of the country, but will practically deprive the agricultural interests of the vast advantages that they now have under the Federal reserve system.

Mr. FLANNAGAN. Well, that is a mere assertion, Senator Glass, as to which I beg to differ with you.

Senator GLASS. Of course it is all a matter of judgment.

Senator FLETCHER. I can not see how it would mean the destruction of the Federal reserve system at all. I do not see how it could do any harm to that system.

Senator GLASS. Because the world has never witnessed in any of the civilized systems of the earth, the effective linking of a liquid commercial banking system and an investment banking system. For that reason, for 50 years the national banks were denied the privilege of conducting trust departments, and they are not given that privilege to-day.

Mr. FLANNAGAN. I thought they were allowed that privilege. I thought the national banks were allowed to act as trustees.

Senator GLASS. Act as trustees, yes, to a limited extent, by a late amendment to the Federal reserve act, which never should have been adopted.

Senator FLETCHER. Mr. Flannagan, will you let us have your views about that violation of banking principles, to which Senator Glass referred?

Mr. FLANNAGAN. Well, that is a mere assertion, which I must deny; that is all.

Senator FLETCHER. In what way is it a sound principle; in what way does it not violate the banking principles?

Mr. FLANNAGAN. If you have a collateral security to an obligation which you want to make liquid, you make it liquid by having a market for that collateral. Liquidity means payment at maturity.

Senator GLASS. But in your view, Mr. Flannagan, a market for that collateral, in the last analysis, is the Federal reserve banks——

Mr. FLANNAGAN. Not at all.

Senator GLASS. Well, under existing law the member bank is authorized to deal in those bonds.

Mr. FLANNAGAN. But I have explained to you, Senator Glass, why the member banks do not want it, because it would yield them only 4½ per cent, and they could not use it.

Senator GLASS. That is exactly what I am saying. You are proposing to permit this member bank to use a bond as collateral for rediscount with the Federal reserve bank.

Mr. FLANNAGAN. Exactly.

Senator GLASS. Precisely, and therefore I say again that in the last analysis what you are proposing is to give a market for these bonds in the Federal reserve bank.

Mr. FLANNAGAN. That is not a market. What do you mean by "market"? Buying and selling? They do not buy them or sell them.

Senator GLASS. I mean by market, taking the funds of the Federal reserve bank to rediscount paper with those bonds as security.

Mr. FLANNAGAN. Yes; but the whole proposition is simply to give the agricultural world and the commercial world the benefit of a circulating medium with that security, which you already have, which is as good as a Government bond. That is all.

Senator GLASS. As a matter of fact, I deny the proposition that it is desirable to have a Government bond as security, and I have pointed to the historical fact that when that privilege was granted to Government bonds this Government had an outstanding indebtedness of less than a billion dollars, and it was only for that reason the Government bonds were granted that privilege. Furthermore, $748,000,000 of the less than $1,000,000,000 of Government bonds were held by the banks as a basis of circulation and could not be used as collateral security for rediscount by the Federal reserve bank. So that in the last analysis the sum total of United States bonds that were made available as collateral security for rediscount at Federal reserve banks was less than $300,000,000.

Mr. FLANNAGAN. Well, Senator Glass, unless you had had in this law the right to have those notes carried by the Federal reserve act, you would never have floated the Liberty loan.

Senator GLASS. Oh, that is a different proposition. That does not touch the subject at all.

Mr. FLANNAGAN. And you say it was a mistake. That is the whole proposition. It is because the banks had to carry those Government bonds for the people. Now, what we want to do is simply to allow the farm loan bonds the same privilege and that should be a small part of it. The farm loan bonds can not get into existence

unless they have double value behind them, and a small part of this privilege would give the farmers the benefit to the extent that farm loan bonds are sold. You have now got, as you say, authority under the law thus to use Government bonds where there is $20,000,000,000 or $30,000,000,000 outstanding, and that is not wrecking the Federal reserve system.

Senator GLASS. Do you regard that as an advantage or as a distinct disadvantage to the Federal reserve system?

Mr. FLANNAGAN. To what?

Senator GLASS. To use investment securities, United States bonds, if you please, as collateral for rediscount, rather than commercial transactions that clear themselves at the end of maturity?

Mr. FLANNAGAN. I regard a Government bond as a good collateral security for circulating notes.

Senator GLASS. You know that the primary purpose of the Federal reserve act, so avowed by every trained and experienced banker in the United States, and so avowed by every actuary and every expert who testified, was that we should be rid of a bond security currency.

Mr. FLANNAGAN. Right, and why? Now, let us get at the gist of it.

Senator GLASS. Because it was a rigid currency.

Mr. FLANNAGAN. Not at all, sir.

Senator GLASS. Well, you ought to read the history of the legislation.

Mr. FLANNAGAN. I will tell you the reason. The reason was because the tendency was always toward inflation; there was no elasticity—now, do not interrupt me, please. It was because there was a double profit given to the national banks on the bonds that were pledged as collateral security, and on the money which they received—we will call it money—circulating notes, we will say, received and loaned. The consequences was that in the desire for profit to the national banks the circulating medium of the country always had the tendency to increase, to inflate, to go ahead and get more and more, by reason of that profit. Now, you did stop that with that language in the Federal reserve act, and you attempted, and did succeed, I think, in giving an elastic currency by holding gold as collateral security and commercial paper in place of Government bonds.

Senator GLASS. Now, let me ask you this: Is not an elastic currency the very antithesis of a rigid currency?

Mr. FLANNAGAN. Yes, certainly.

Senator GLASS. But you said a while ago that it was not because a bond-secured currency was rigid.

Mr. FLANNAGAN. No; I said that the reason the national currency was not elastic currency was not because it was secured by Government bonds but because there was no means of reducing the currency.

Senator GLASS. In other words, it was always rigid, just as I have said.

Mr. FLANNAGAN. No; it was always increasing—yes.

Senator GLASS. It could not be always increasing, because the debt was always being reduced.

Mr. FLANNAGAN. To the extent to which the Government debt was reduced, of course.

Senator GLASS. Less than a billion dollars.

Mr. FLANNAGAN. Yes.

Senator GLASS. Now, there is nobody on earth who could for 15 minutes have followed the record, who would not see that it is just saturated, it is replete with the reasons why this country wanted to get rid of bond-secured currency. It was because it was a rigid currency, it was because in time of business activity there was no scope for expansion, and it was because in depression and dull times there was no convenient method of contraction.

Senator WELLER. That was the real reason for the reserve system.

Senator GLASS. That was the reason for the reserve system, and the record is simply saturated with statements of that sort, and I am amazed to have Mr. Flannagan, who was so closely in contact with that legislation, say now that that was not the reason for it. If that was not the reason for it, I do not know what the reason was, and I think I had something to do with it.

Mr. FLANNAGAN. Of course, you had lots to do with it, more than any man I know, but I am trying to draw a distinction between what made it rigid currency, because there was no method of reducing it; that is to say, where the want of elasticity came in. It was the tendency toward expansion. That was the reason you wanted to get rid of it. It was not by reason of the security that you held for it. That is the point I make. We have this record, that for 50 years or more we had a national currency secured by Government bonds, and not one single dollar was lost. So why should

not Government bonds be good security? I was drawing a distinction between security and elasticity.

Senator GLASS. Nobody would ever deny that a Government bond is not good security——

Mr. FLANNAGAN. For circulation.

Senator GLASS. But it is not a liquid asset.

Mr. FLANNAGAN. I deny that.

Senator GLASS. It is not a liquid commercial asset.

Mr. FLANNAGAN. If you put the word "commercial" in, I will agree with you; but that it is not a liquid asset I do not agree with you.

Senator GLASS. Is not the Federal reserve banking system primarily—exclusively, indeed—a commercial banking system, and was it not intended so to be? I am willing to go as far as the farthest in supplying ample facilities for farm credits, but they ought to be farm credits; they ought not to be commercial. You ought not to undertake to couple up with a strictly commercial banking system a farm credit system, because in that consummation you simply destroy the commercial system and you will ruin the farm credit.

Mr. FLANNAGAN. Not at all.

Senator GLASS. I agree with Senator Fletcher that agriculture is the foundation of our prosperity, and that the failure of agriculture means disaster in any event. Conversely, the breaking down of the great commercial banking system of the country would largely destroy agriculture.

Mr. FLANNAGAN. Right; that is granted, yes: but to break down the commercial system would, to a large extent, destroy agriculture, because they would not have the facilities to do their business. But I maintain that if you connect the two to the extent that Senator Fletcher desires, namely, that you allow these bonds to be utilized as collateral security, you are simply giving agriculture the benefit of the circulation privilege which is now monopolized for the commercial world.

Senator GLASS. Not monopolized.

Mr. FLANNAGAN. I think the commercial people ought not to have a monopoly of it.

Senator GLASS. Not monopolized for the commercial world. Commercial transactions, with respect to agricultural products are given first place in the Federal reserve statutes. In other words, the agricultural interests are favored beyond the point of generosity, as distinguished from mere mercantile or industrial transactions. If Senator Fletcher is a merchant, and he wants accommodation through his member bank at the Federal reserve bank of his district he can only get the accommodation for 90 days. If he is a farmer or cattle grower or cotton raiser, and wants accommodation through his member bank at the Federal reserve bank, he can get it for six months.

The CHAIRMAN. As the law now is.

Senator GLASS. That is the law now. That very advantage is given to agriculture.

Senator FLETCHER. The whole purpose, practically, of this proposition—the prime purpose—is not to give additional credit so much to agriculture or to the farmer, but it is to create a market for these bonds that are issued against farm mortgages, by which the Farm Loan Board will get money to loan to the farmers.

The CHAIRMAN. I would like to ask a question at this point. When you say it increases the market for the farm loan bonds, that you hope to bring about by permitting and allowing the Federal reserve banks to acquire and take over these bonds?

Senator FLETCHER. That and the rediscount privilege that follows. That is only one provision of the bill.

The CHAIRMAN. That is a starting point?

Senator FLETCHER. Yes.

The CHAIRMAN. Assume, then, that the Federal reserve bank acquires the bond—the farm loan bond itself—by permitting that to be done, that, you say, may extend the market for the farm loan bonds?

Mr. FLANNAGAN. It is to create a demand from all commercial business for these bonds because the banks will want to hold those bonds, as is shown by these letters that Senator Fletcher has received from all the banks all over the country.

Senator FLETCHER. The new demand will arise in this way, as I have said in that letter—

"It will create a constant and broad market for farm loan bonds. I am assured that the city bank or banker, the big insurance and trust companies, indeed all dealers in securities or traders in debts—and banking is but another name for trading in debts—will find it most convenient to have always available a security which, under any and all circumstances, may readily be converted into cash."

And then in addition to the banking fraternity, there is this provision for bankers' acceptances, with those bonds as collateral security, entitling the holder to the lowest rate of discount at the Federal reserve bank, that will make the bond sought by the savings banks and by industrial and mercantile establishments, whose business requirements are such that only at certain seasons of the year they must have ready cash. I read again from my letter:

"They will not find it necessary to keep large bank balances idle or bearing a nominal rate of interest, for farm loan bonds will then be a most desirable substitute for such balances, yielding a greater profit"—

The bonds will be drawing interest—

"A small investor will also find those bonds a profitable substitute for time deposits, being in convenient denominations and yielding a better rate of interest, yet always available to produce cash."

Now, I think Senator Glass's objection would come to about this: The idea that at last the final market would be the Federal reserve bank, and you can go to them and get cash on the bonds. It would be like the case of the man who went into the bank to draw out his deposit; he had some suspicion about the bank, and when he found that the bank had all the money that was needed to pay all depositors right on hand, he said, "I guess I will leave mine right here." The people would not want to go to the Federal reserve banks and get their money while carrying this security. The security becomes liquid, in demand everywhere, by reason of the fact that they know they can get the money there if they are obliged to get it.

Mr. FLANNAGAN. In order for that statement to be true, that the Federal reserve banks would finally own all these bonds and take them, it is necessary to assume that the Federal reserve bank would have to buy up all paper discounted, that they can not collect on it at all, because the Federal reserve bank does not buy it at all. We do not want them to buy them. We simply ask them to loan on them.

Senator GLASS. Why did we not make railroad bonds security for rediscount?

Senator FLETCHER. They are speculative; they are not secured in the same way and they are not issued by a fiscal agency of the United States.

Mr. FLANNAGAN. I am not interested in railroad bonds. I want to see the farmer get his loan.

Senator GLASS. But I am interested in my country, whether it be the farmers of the country or other citizens of the country.

Mr. FLANNAGAN. I think because agricultural is a great industry it deserves to be given the benefit of it.

Senator GLASS. Do you not think the railroads are essential to the prosperity of this country? Are they not indispensable to the prosperity of the farmers themselves?

Mr. FLANNAGAN. I think they are.

Senator GLASS. Then why not use railroad bonds? I will tell you, and you know just as well as I know. We discussed that matter when we were cogitating on the federal reserve legislation. You know why just as anybody knows why. It is because we wanted to establish a liquid commercial banking system, the circulation from which would be based upon actual short-time commercial transactions.

Mr. FLANNAGAN. Yes.

Senator GLASS. It is an asset currency, so much reviled heretofore, but it is the only scientific currency that the world has ever seen.

Now, let me say a word with respect to another provision of this bill, with all deference to the judgment of Senator Fletcher, as its patron, or anybody else who may favor it. I would like Senator Fletcher to examine the record and read the hearings before the subcommittee of the Committee on Banking and Currency of the House of Representatives in 1912. We had before that committee many of the most eminent financiers of the world. Among them, as you will recall, was Sir Edmund Walker, of Canada, one of the most highly successful and reputable bankers in all the world; and when this question of domestic acceptances was brought to his attention, he said, "Why, gentlemen, no such system prevails in any civilized country of the earth: any such system attempted would inevitably wreck the banking system of any nation that should undertake it." And that was the deliberate and very emphatic testimony of this great international banker of Canada, and upon that testimony the House Banking and Currency Committee, and subsequently the House conferees, stood out against the introduction of this poison into that measure, and we prevailed. It was thrown out of the bill. It got back into the bill in an insidious way. Mr. McAdoo, Secretary of the Treasury, and Mr. Warburg, came up and appealed for a modification of the act for war purposes—during the war. I was opposed to it. Those gentlemen said to me that it was a fearful responsibility to assume to deny a request from the Treasury in war times that was intended to finance the war, and I said, "I will not assume the responsibility for putting it in under plea of war necessity, but I will put upon you gentlemen the responsibility for defeating it."

What has happened? Go and ask the Federal Reserve Board what has happened. It has been the most frightfully abused provision of the Federal reserve act, so fright-

fully abused that 12 months ago it came near wrecking two of the largest banks in the city of New York; and when we talk to-day about the outstanding volume of our currency and credits, we do not know what it is, because hundreds of millions of dollars have been invested in these domestic acceptances, even in the guarded way in which we put a provision in the bill requiring documentary bills to be attached. Hundreds of millions of dollars were invested, and the unexampled practice prevailed for a while of renewing acceptances. No banker on all the earth ever heard of renewing acceptances before. An acceptance is a piece of paper that must liquidate at maturity, and yet in the Cuban sugar scandal, and in the rubber scandal, and in many other large scandals, that provision of this bill was used to threaten the financial stability of the banking system of the United States, and to-day they do not know to what extent that practice prevails—not a dollar of reserve behind a single dollar of this credit, as you know, and now it is proposed to extend that vicious system of domestic acceptances——

Mr. FLANNAGAN. Not at all.

Senator GLASS. Yes, it is. There it is, written in the text of the bill.

Mr. FLANNAGAN. A domestic acceptance with a farm-loan bond behind it as collateral security. As far as that goes, it is not necessary at all for the working of Senator Fletcher's bill that the accep tance——

Senator GLASS. Then let it go out.

Mr. FLANNAGAN. Please let me get through. It is not necessary at all for the working of Senator Fletcher's bill that the acceptance privilege be in there at all. We do not care whether the payer's name is written at the bottom of the note, or on the face of the bill, the latter constituting an acceptance. Both are made eligible for discount under the Fletcher bill. In case of acceptances you would have to have two member banks' names on the paper, and in the case of a direct obligation you would only have to have one. You may eliminate the acceptance if you want to.

Senator GLASS. It would be a direct obligation; yes.

Mr. FLANNAGAN. A direct obligation with the farm-loan bond as collateral eligible for discount, creates a market just as well from among the banks. The acceptance, I think, was put in simply in case the bank would say, "My line is full; I can not rediscount, but I will give you an acceptance against your security," that such acceptance might be discounted by another bank. That is all.

Senator GLASS. In my considered judgment, with all due respect to the judgment of even as able a gentleman as I know Senator Fletcher to be, it is not going to create any extensive market for farm-loan bonds, because I do not believe that any—well, I will modify that and say many wise bankers in this country would desire to load up their portfolios even with United States bonds as collateral security—I mean commercial banks. Wise bankers do not relish that sort of thing, and in their published statements it is not at all to the credit of either the wisdom or safety of any banking institution to show that they are loaded up——

Mr. FLANNAGAN. With rediscounts. I agree to that.

Senator GLASS (continuing). With investment bonds. So I think you are pursuing a phantom, an illusion, if you think you are going to create any great market for them. I should be very much more alarmed if I could think you would create a market.

Mr. FLANNAGAN. In contradistinction to your opinion, and with reference thereto, Senator Fletcher has filed the opinion of a great many country bankers throughout the country, who maintain that they would be very glad to have this thing done, and would utilize it.

Senator GLASS. I hope they are not of the same character of country bankers who trooped here to Washington to protest against the passage of the Federal reserve act, which has saved their skins during the late war and since.

Mr. FLANNAGAN. Right you are.

Senator FLETCHER. I don't want to cripple the Federal reserve system or the Federal reserve act; I do not want to do it any harm, and in my judgment this can not do it any harm.

Senator GLASS. I am sure that is your judgment, Senator, or you would not have this bill here; but it is not my judgment or I would not so vehemently protest against it. I know your solicitude for the farming interests; I know your great service to that interest, and I am willing to join you or any other tested friend of the farming interest in establishing and maintaining a farm banking system that will completely meet their problems, or as completely as it is possible to meet those problems. But it is my very definite judgment that it would be a frightful mistake and a frightful injury to the farming interests of this country to undertake to couple up the farm loan system with the Federal reserve banking system.

Senator FLETCHER. Now, Senator, you will admit that under present conditions the Farm Loan Board is unable to find the money—their ability to find it depending upon the disposition of the bonds—with which to adequately supply the needs of agriculture.

Senator GLASS. I do not think that the Farm Loan Board has been, or will be, able to do that with as great facility or to as great an extent as you or I would like to see it done. But I think that it is due to abnormal conditions. I think it is due to the fact that there is outstanding such a tremendous volume of investment securities—$24,000,000,000 of Government bonds. But pray tell me, if farm loan bonds, exempt from taxation, Federal, State and municipal, can not be readily disposed of, does that not in itself indicate that we have an abnormal condition that can not possibly be cured by such a departure—I would not offend Mr. Flannagan by repeating Gov. Harding's objection as to the "fundamentals" of banking—but it is utterly in disregard of the common practice of banking to load a bank up with investment securities as collateral for loans.

Mr. FLANNAGAN. You do not want to load them up.

Senator FLETCHER. How would you make more attractive the farm loan bonds, and create a demand for them, and enable them to find a ready sale, and in sufficient quantity to supply the money to meet the needs of the farmer?

Senator GLASS. Well, the only orderly and customary way to do would be to increase the rate of interest with the exemption, and make it a more attractive investment, and that would be a vicious and temporary expedient.

Senator FLETCHER. I admit that conditions are somewhat abnormal.

Senator GLASS. Absolutely abnormal.

Senator FLETCHER. But I do not know when we are going to reach a time when the whole country would not be flooded with securities that are paying a higher rate of interest than farm loan bonds, and we do not want to make the interest on those bonds so great that the system would really not help the farmer.

Senator GLASS. I say that would be a vicious and temporary method. But whatever may be the solution of the problem—and I am quite as anxious to see it advantageously solved as anybody could be—whatever may be the solution, certainly in my judgment it should not be an attempt to connect up the farm loan investment system with a strictly commercial banking system. Let us see if we may not establish a combination system of commercial farm credits, the operation of which will be clearly defined and understood by everybody.

You certainly can not effectively connect the present system up with the existing Federal reserve system without infinite damage to the Federal reserve system, if the bankers should unwisely avail of the privilege which you are to confer, and just to the extent that you injure the Federal reserve banking system you do in that degree damage to the agricultural interests, because imbedded in the Federal banking system are privileges greater in extent, and more effectively used in behalf of the agricultural interests of the country, than they will derive from this bill, in my judgment.

Mr. FLANNAGAN. Senator Glass, you seem to attach a great deal of importance to the extension of the rediscount privilege to the farm loan bonds, which now already exists for Government bonds.

Senator GLASS. And ought not to.

Mr. FLANNAGAN. Well, it does—now, please do not interrupt me——

Senator GLASS. You mention what I regard as an unfortunate feature—indeed I might say a vicious feature—of the Federal reserve system, as an excuse to further extend that feature.

Mr. FLANNAGAN. But, Senator Glass, call it a vicious system if you will—it is like your prediction which has not come true, and that the Federal reserve system is ruined thereby—here you have already $24,000,000,000—I believe that is the right amount—of Government bonds that can be utilized as collateral security, and you object here to a few hundred millions of farm loan bonds being used.

Senator GLASS. Oh, can be used as collateral security for short-time commercial transactions.

Mr. FLANNAGAN. Right; for short-time paper.

Senator GLASS. Commercial transactions.

Mr. FLANNAGAN. But when you put in the word "commercial" you mean the selling of a commodity.

Senator GLASS. Whether it be farm transactions or any other character of transactions.

Mr. FLANNAGAN. Well, when you say "commercial" you mean trading in commodities, and the farmer does not trade in commodities.

Senator GLASS. Doesn't he? Why doesn't he?

Mr. FLANNAGAN. Oh, he sells eggs and such things. I said trade. But you can not call a farmer a trader.

Senator GLASS. Well, he sells, as a matter of fact, and you ought to have a credit system adapted to his practice.

Senator FLETCHER. Now, go ahead, Mr. Flannafgan. Have you anything else that you desire to submit?

The CHAIRMAN. Mr. Flannagan, if you carry these points of objection in your mind that have been urged by Senator Glass and by Gov. Harding, will you kindly address yourself to them, if you have not already sufficiently done so, according to your views?

Mr. FLANNAGAN. I think I have already stated the proposition, Mr. Chairman, really in my discussion with Senator Glass; that is to say, they maintain that the farm loan system is based on self-liquidating paper, and I maintain that there is no such thing as self-liquidating paper.

The CHAIRMAN. That is a descriptive phrase, is it not? That is a term that is used to describe short-time notes and obligations?

Mr. FLANNAGAN. That is correct. I maintain that liquidation comes from short maturity that gives the bank the opportunity of paying, whether it should be paid or not, and that is all that is meant by liquid paper.

Senator FLETCHER. What have you to say about this 60 days? Would you change that? That seems to me to be too short.

Mr. FLANNAGAN. I see no objection to making it 90 days or four months for a direct obligation of the bank, because they have discount paper. I would confine it to the custom of the bank in discounting paper; that is, make them short maturities.

Senator FLETCHER. Ninety days.

Mr. FLANNAGAN. Ninety days. I think I should refer to a point that Gov. Harding makes here:

"To the extent that the acceptances and direct obligations described in the bill were used as collateral for Federal reserve notes, the elasticity of and the power of control over such notes would be diminished."

I do not think that the security that is pledged for circulating notes has anything at all to do with this elasticity. The elastic currency or volume is regulated by the rate of discount, in the case of the Federal Reserve Board, by raising or lowering the rate of discount.

Senator GLASS. Do you think that is invariably so? The record does not show it.

Mr. FLANNAGAN. Does not show what?

Senator GLASS. That it is altogether regulated by the rate of discount. I grant you that that is a large factor in it, but as a matter of fact it is not all of it.

Mr. FLANNAGAN. The elasticity; I said the volume ought to be regulated.

Senator GLASS. That is what I am addressing myself to. The Federal reserve banks of the country have by degrees reduced their rate of discount from 7 per cent to 5 per cent, and yet the outstanding volume of Federal reserve notes is decreasing rather than increasing——

Mr. FLANNAGAN. Has increased or decreased?

Senator GLASS. Has decreased.

Mr. FLANNAGAN. Well, that is the way you would decrease it. The banks have no——

Senator GLASS. You mean you would decrease it by lowering the rate of interest?

Mr. FLANNAGAN. No; by increasing the rate of interest.

Senator GLASS. But I have pointed out to you that within the last 12 months the rate of rediscount has been reduced from 7 per cent to 5 per cent, but the outstanding volume of notes is not proportionately greater.

Mr. FLANNAGAN. But the outstanding volume of notes has decreased, has it not, some billion of dollars?

Senator GLASS. Yes.

Mr. FLANNAGAN. Well, that has decreased, too. The outstanding volume of notes has decreased. That is the point I made.

Senator GLASS. Has decreased by reason of——

Mr. FLANNAGAN. Well, you will not let me speak.

Senator GLASS. I want you to explain as you talk. The volume has decreased by reason of the reduction of rediscount rate.

Mr. FLANNAGAN. No; by reason of the increase.

Senator GLASS. But I tell you it has not increased; it has been decreased from 7 to 5 per cent.

Mr. FLANNAGAN. Lately it has been decreased, but they did increase it, did they not, when they started the deflation move. Did they not increase the rate of discount?

Senator GLASS. They did not start the deflation move; they put a stop to inflation—at least they tried to.

Mr. FLANNAGAN. They called it deflation.

Senator GLASS. You called it deflation, and I am trying to correct you.

Mr. FLANNAGAN. In point of fact the banks have no means of controlling the volume of substitutes for coin; that is, credit currency, which they issue, except by either refusing to make discounts of paper or by increasing the rate of interest or discount.

Senator GLASS. Yes; and banking instinct always finds a courageous banker who refuses to discount or rediscount.

Mr. FLANNAGAN. I think our Federal Reserve Board made a mistake, though, in attempting to deflate by increasing the rate of interest.

Senator GLASS. They did not attempt to deflate; they attempted to appreciably put a stop to inflation at the rate of 45 degrees. That is the rate at which it was going when they increased the rediscount rate.

Mr. FLANNAGAN. Yes; I think the principle of increasing or lowering the rate of interest, which has been practiced for so many years by the Bank of England, is done for the purpose of controlling the gold reserve.

Senator GLASS. Oh, yes.

Mr. FLANNAGAN. And it is regulated by the state of the foreign exchanges; it is not a question of the amount of currency in circulation. I do not believe in the quantitative theory of currency at all.

Now, is there any special question that you desire to ask me, Senator?

Senator FLETCHER. I might suggest this: Senator Glass thinks there would not be the benefit derived from this legislation that we suppose. You might give your views as to how this demand would be increased; in what way would the market be broadened? Would we find that we did not have buyers for the bonds?

Mr. FLANNAGAN. You will find a buyer from every commercial bank in the United States. You will find that they will want some farm loan bonds among their assets. You have had a demonstration of this belief by the letters you have received from the various bankers throughout the country; that is, that you will find a demand. You will find a demand from people who have uses for money, large amounts of money at times of the year, or at certain periods of the year, and at other periods of the year they have no use for it. That is, in place of putting your money as a deposit in the bank—and deposits in the bank simply go to increase the discounts, making additional inflation—you will find that the people will invest them in farm loan bonds, because they can always get their currency at the time they want it. You will find that the savings banks will want it; and my impression and my belief is that with this amendment which you have proposed you will constitute a broad market for farm loan bonds without any injury to the Federal reserve system at all, and I do not believe that with the small amount of farm loan bonds that are handled, in proportion to the large volume of Government bonds which they now already handle, that your bill can have any material effect on this system.

The CHAIRMAN. The bonds bear what rate of interest?

Mr. FLANNAGAN. These bonds bear 4½ per cent. The last issue was 5 per cent.

The CHAIRMAN. And are exempt from all taxation?

Senator FLETCHER. Yes.

Mr. FLANNAGAN. If this bill should pass, I think it will decrease to 4½ per cent, so as to give the farmer the benefit of it at that rate.

Senator FLETCHER. The last issue was at 5 per cent.

The CHAIRMAN. Is it desirable to increase the total amount of tax-exempt bonds?

Mr. FLANNAGAN. That brings up an entirely different question. If you are going to pursue the policy of decreasing all tax-exempt securities, I think you will find, probably, that the Congress will still make the farm-loan bonds an exemption, because you are in a position where unless you furnish the farmer with capital at a low rate of interest he can not live; he can not afford to pay a high rate of interest, and he can not come in competition with all these various promotion schemes.

Senator GLASS. Mr. Flannagan, will you not admit that the passage of the Federal reserve act and the adoption of the Federal farm-loan system have vastly benefited the farmer with respect to the rate of interest he has to pay?

Mr. FLANNAGAN. There is no question about it; but the tendency is now to get an increased interest. You have it to the point where the farmer is paying 5½ per cent for interest for a loan.

Senator GLASS. But that is because these are abnormal times, when everybody has to pay more than they ever had to pay, not only for money but for the commodities that they use, the produce that they consume, and the farmer is not an exception to that; and, by the way, I would like to say that I am a farmer who has not seen the bright side of the question. I have seen only the dark side. I have lost money on my farm ever since I have had it.

The CHAIRMAN. What is the prevailing rate of interest in Florida, Senator?

Senator FLETCHER. Eight per cent is the legal rate, and 10 per cent is the contract rate.

The CHAIRMAN. Permissible under the law?

Senator FLETCHER. Yes; permissible under the law.

Senator GLASS. Right there, Senator, if I may be permitted, I have contended that the various States are largely to blame for the oppression of the farmer. Why should Florida make a legal rate of interest at 8 per cent and a contract rate of 10 per cent and the banks of Florida expect to borrow money from the Federal reserve banking system at 4½ and 5 per cent? Why, the difference in the rate of rediscount and the rate of discount would make any bank rich.

Mr. FLANNAGAN. There ought to be some way to stop that.

Senator GLASS. The Federal Reserve Board ought to exercise its power under the law to differentiate rates of rediscount. If my State is permitted to charge only 6 per cent, as it is, and some other States are permitted to charge some other rate, as they are, in the States where the 10 per cent rate prevails the rediscount rate ought to be raised.

Senator FLETCHER. A considerable number of owners and operators of farms can not get loans at all. Of course that is not a banking proposition, making loans on farms for a long period of time. I think commercial banks have been greatly relieved by this system. I do not think they ought to make loans on real estate extending over a period of time that would suit the farmer, and as a matter of fact, the farmers are not able to get their money through the commercial banks, generally speaking, not only in Florida but throughout the country, I think, very largely. This system enables a man to acquire a home and a farm, and get his money for that purpose through the Federal land bank.

Senator GLASS. I think but for the misfortune of war, and the abnormal situation with which we have been confronted ever since, that the system would have gone forward with tremendous success.

Senator FLETCHER. I am afraid they never would have found a sufficient supply, Senator, even under normal conditions.

Senator GLASS. Do you think if we did not have outstanding $24,000,000,000 of Government bonds, that these farm loan bonds, tax exempt, would not sell like hot cakes?

Senator FLETCHER. I suppose they would, but it seems that the experience of the Farm Loan Board is that the public will only take about so much and the board seems to consider $150,000,000 to $200,000,000 a year as the limit of their capacity to take care of the business.

Senator GLASS. That is because of the great flood of securities that have been dumped upon the public.

Senator FLETCHER. One condition is this—as to the bonding houses, institutions that do the business of selling bonds, the Farm Loan Board will pay them, say 1 per cent commission to sell those bonds, and they can get from 3 to 5 per cent commission to sell other bonds; consequently they devote their time to selling other bonds and letting these bonds go. That is another situation.

The CHAIRMAN. You say another issue of $60,000,000 has been authorized?

Senator FLETCHER. Yes; they have issued $60,000,000, and they have sold about $33,000,000 of those within the last week or 10 days.

The CHAIRMAN. At what rate do they sell?

Senator FLETCHER. Five per cent. They get par for them.

The CHAIRMAN. The law requires that, does it?

Senator FLETCHER. Yes, at par, plus interest from May 1.

Mr. FLANNAGAN. Do you not think, Senator Glass, that the desire for profit, or the wrong which is perpetrated by country banks in charging so much difference between what they charge their customers and what they get their discount for at the Federal reserve bank, could be remedied by limiting the amount of rediscount in proportion to their capital?

Senator GLASS. No; nobody thinks that ought to be done, because that puts the smaller bank at a great disadvantage, and just to the extent it puts them to a disadvantage, it puts the communities that they have to serve at a great disadvantage.

I think the Federal Reserve Board ought to do what it was intended under the law it should do, differentiate their rates of rediscount.

Mr. FLANNAGAN. Do you believe in this progressive rate that they started?

Senator GLASS. Measurably, I do. I think in a few instances it was abused; but I call your attention to the fact that that Federal reserve district which was most criticized, and where it was said that the progressive rate was most abused, was the only Federal reserve district in which there was not a bank failure—not one.

Now, for a long period of time the Federal reserve banks were practically offering a subsidy to the banks in the Northwestern States and the Pacific coast States, to rediscount. They were paying them a premium to rediscount, because they could make money on the difference in what they charged their customers and what they could get their paper rediscounted for. I do not think that ought to be. I think they ought to differentiate the rate of rediscount. You know that one of the vices of the Aldrich bill—admitted now by everybody—was its attempt to establish a uniform rate of interest throughout the United States. It can not be done and ought not to be done.

The CHAIRMAN. Senator, let me ask you, has that power of the board been called to their attention, and has the board been urged to exercise it.

Senator GLASS. Well, I may not say actually that the board has been urged to exercise it. I called the attention of Gov. Harding to it and also the attention of ex-Gov. Hamlin, and they agreed that that ought to be done, but they have never done it. They ought to do it. It was intended that they should do it.

Senator WELLER. Why did they not do it; because they lacked the moral courage?

Senator GLASS. I think because they have had to stand a constant and bitter bombardment from all over the country.

The CHAIRMAN. They would doubtless be criticized severely if they undertook to depreciate the rate.

Senator WELLER. Senator Glass, would you suggest any other or better method of creating a better market for these farm loan bonds than of raising the interest rate on them, out of your experience?

Senator GLASS. I do not suggest that the interest rate be raised, though, as I recall I voted in the committee here to permit an increase of one-half of 1 per cent when the joint stock land banks came here and requested it. My contention is that there ought to be established, in conjunction with the Federal farm loan mortgage system, a short-time rural credit system, under which these short-time loans may be obtained; but nobody can create a market for a security if the market is already glutted with securities, except by increasing the rate of interest and making the bonds attractive.

Mr. FLANNAGAN. Is that true, that you can not create a market except by increasing the rate of interest?

Senator GLASS. Yes; I think it is true—not upon sound principles.

Mr. FLANNAGAN. How about Mr. Salmon P. Chase, when he and others floated Government bonds by giving the national banks the privilege of circulation—did not that create a market?

Senator GLASS. Oh, yes; it created a market by——

Mr. FLANNAGAN. But you said there could not be any market except by raising the interest.

Senator GLASS. I said upon sound banking principles. Do you contend that the national banking system was established upon sound banking principles? It was not a banking system at all. It was a bond-selling system, and even then it only succeeded by denying the right to the State banks to issue circulation. Do you call that sound?

Mr. FLANNAGAN. I supposed the national banking system was sound—yes. Do not you?

Senator GLASS. Not scientifically, or we never would have revolutionized it, as we did by the Federal reserve act. It was so "sound" that about every ten years it created a panic in this country. It occasioned inestimable loss to the business intesests of the country, both commercial and industrial, and also agricultural.

The CHAIRMAN. Senator Fletcher, do you care to add anything further with respect to Senate bill 620?

Senator FLETCHER. Mr. Chairman, I want to call some other gentlemen whom I expected here this morning, but who are not present at this time, and as the time of the committee is limited, we will have to take that up at a later date. With the permission of the committee we will now take up the bill, S. 2183.

The CHAIRMAN. Very well.

Senator FLETCHER. I will say, Mr. Chairman, that the object of the bill, S. 2183, is to change the organization of the Farm Loan Board, and I want to disclaim at the outset any animosity whatever toward the membership of the present Farm Loan Board. They are all my friends, and as far as I know our relations are perfectly cordial, and I am not finding any fault with the board, in so far as it is constituted now.

My idea is, in the first place, that we are all striving toward economy, seeking to accomplish economy without injuring efficiency, and I have the impression, as a matter of fact, there are more members on the board than there is really need for. At the present time the board is composed of the Secretary of the Treasury, ex-officio, and four members appointed by the President, each member drawing $10,000 a year,

salary, and of course each member will have his own corps of clerks or assistants, and the usual office force, and in my judgment the overhead expense connected with the system is greater than is necessary.

I think, in the first place, that the membership, instead of being four, could very well be made two, to be appointed by the President. That would save $20,000 in salaries, besides office expenses of each of the two members, and then I think the Secretary of Agriculture ought to be on this Farm Loan Board. This system is primarily for the benefit of agriculture, and I think it is altogether proper and appropriate that the Secretary of Agriculture should be a member of that board ex-officio, along with the Secretary of the Treasury.

The CHAIRMAN. And two others?

Senator FLETCHER. And those two members to be appointed by the President, instead of four.

The CHAIRMAN. That would make it a board of four.

Senator GLASS. Three.

The CHAIRMAN. You mean to substitute the Secretary of Agriculture for the Secretary of the Treasury?

Senator FLETCHER. No; have them both.

The CHAIRMAN. That is to say, have two added?

Senator FLETCHER. Two ex-officio members and two members to be appointed by the President.

I have just given a brief outline of the proposition, and I will ask Mr. Flannagan—who is present, and who has had experience from the very inception of this board as its secretary and knows the work that is going on there—whether he thinks that two working members there would be sufficient.

Mr. FLANNAGAN. I do not think that four members are necessary and have never thought so, and I think that is the opinion of most of the members of the board. I heard Capt. Smith say so, who is one of the members of the board. They really do not have a great deal to do, and this morning, at Senator Fletcher's request, I went by the Treasury Department and got from the appointment bureau a list of the number of employees in each of the bureaus, and the amount paid to the executive heads of them, for comparison. It shows that in the Secretary's office there are 34 employees, and the salary of the Secretary is $12,000. In the chief clerk's office there are 1,192, with an overhead charge of $4,000; in the loans and currency division there are 1,831, and a salary of $3,500.

Senator FLETCHER. Mr. Chairman, without asking Mr. Flannagan to read that entire paper, I ask that it be inserted in to the record.

The CHAIRMAN. The paper will be incorporated in the record.

(The paper referred to is here printed in full, as follows:)

Statement showing number of employees, Treasury Department, Sept. 30, 1921.

Office.	Number of employees.	Salary of administrative officer.	Office.	Number of employees.	Salary of administrative officer.
Secretary	34	$12,000	Coast Guard	80	$5,000
Chief clerk	1,192	4,000	Public Health	607	6,000
Appointment	34	3,000	Farm Loan	63	[1] 40,000
Bookkeeping and Warrants	91	4,000	Supervising Architect	287	5,000
Customs	51	4,500	Comptroller of the Currency	227	5,000
Printing and Stationery	42	2,500	Treasurer, United States	1,212	8,000
Mails and Files	13	2,500	Internal Revenue	7,016	10,000
Disbursing clerk	17	3,000	Budget	23	10,000
Secret Service	11	4,500	Deposits	8	3,500
Loans and Currency	1,831	3,500	Mint	14	5,000
War Savings	19	5,400	Miscellaneous Bond	35	
Register of the Treasury	901	4,000	Public Debt	186	6,000
Bureau of Engraving and Printing	6,459	6,000	**Total**	20,453	

[1] Four members.

Senator FLETCHER. This is a bureau of the Treasury Department, and, like other bureaus, it needs, of course, a head; but at the same time there is no need of paying the head of that bureau $40,000 a year. The thought that the membership of the board should be distributed, I think, hardly applies to that bureau any more than to any other bureau of the Government. Take, for instance, the collector of internal revenue——

Senator GLASS. It not only applies to the Federal Reserve Board, but the President is textually prohibited from appointing more than one member of the Federal Reserve Board from any one Federal reserve district.

Mr. FLANNAGAN. But the Federal Reserve Board is not a bureau in the Treasury.

Senator GLASS. No; it is not. That is what I am saying. Nor should the Secretary of the Treasury be chairman ex officio of the board.

The CHAIRMAN. This indicates that there are 63 employees here at the headquarters.

Mr. FLANNAGAN. That is the pay roll in Washington. That has lately been increased.

The CHAIRMAN. Four members at $10,000—about $40,000 as the executive head, so to speak, of the bureau or department.

Senator FLETCHER. Yes; of the bureau. From your experience there, Mr. Flannagan, do you believe that it is necessary to have four men?

Mr. FLANNAGAN. I do not, and I do not think any other employee who has ever been there will say so. I do not think the members of the board themselves would say so, if you should ask them.

Senator FLETCHER. Is it not a fact that the principal work that was incumbent upon them, of course, at the beginning, namely, districting the whole country and establishing the banks and getting them organized was the most difficult part of their work and involved the greatest amount of effort?

Mr. FLANNAGAN. Yes.

Senator FLETCHER. And that has all been done?

Mr. FLANNAGAN. Yes.

Senator FLETCHER. So the whole system is now in working order?

Mr. FLANNAGAN. Yes.

The CHAIRMAN. What have you to say with respect to the suggestion of Senator Glass, throwing out the idea that this is a very great country territorily, with industries and farmers scattered from the Atlantic to the Pacific?

Mr. FLANNAGAN. I do not think it applies any more than it does to the internal revenue. It is a great country. They come from all over the country somewhere.

Senator WELLER. But the collector of internal revenue is an administrative officer largely. These men deal with agricultural conditions, which are very different.

Mr. FLANNAGAN. They only deal with 12 Federal land banks.

The CHAIRMAN. They have immediate jurisdiction of them, though, have they not?

Mr. FLANNAGAN. Yes; they have supervision also over the national farm loan association.

Senator WELLER. But the agricultural conditions of Texas, for example, are very different from those of New England or Oregon or Washington.

Mr. FLANNAGAN. They have control of the Federal land banks of the district. The Farm Loan Board does not make discounts. They do not pass on loans; they have nothing to do with that.

Senator GLASS. They administer the whole system.

Mr. FLANNAGAN. They simply have supervisory control (representing the Government) of the 12 Federal land banks and the association.

The CHAIRMAN. The same conditions do not prevail, though, in different districts.

Senator WELLER. That is the point I make.

Mr. FLANNAGAN. Of course there are different conditions.

The CHAIRMAN. I want to have it clear in my own mind. The board here keeps its eye on the whole country, does it not?

Mr. FLANNAGAN. Certainly.

The CHAIRMAN. And it has immediate control. Can they can not check up and control these various districts and banks?

Mr. FLANNAGAN. Yes, through the several 12 Federal districts and through all the Federal land banks in those districts.

The CHAIRMAN. Do they not have something to do; do they not exercise some regulatory control?

Senator FLETCHER. They authorize the issue of the bonds; they see to that.

The CHAIRMAN. I am merely trying to ascertain if they sit there and do nothing, or whether they keep in touch with affairs of all the districts, and to some extent they may control the activities of the different districts.

Mr. FLANNAGAN. They make rules that apply to all districts alike. They do not make a rule for one district and say what the rate of interest should be for that district. All their rules and regulations apply to all, and the administration of the system belongs really to the Federal land banks in the respective districts, under the supervisory control of the board.

The CHAIRMAN. They make appointments here, do they not, of men to perform certain duties throughout the whole country?

Senator FLETCHER. They select the land appraisers and registrars and examiners.

Mr. FLANNAGAN. They appoint land appraisers upon recommendation of the land bank of the district.

Senator GLASS. But they frequently reject the recommendations of those banks.

Mr. FLANNAGAN. The recommendations of what, Senator Glass?

Senator FLETCHER. Of the land banks with respect to appraisers.

Mr. FLANNAGAN. Oh, yes.

Senator GLASS. They are not bound by them?

Mr. FLANNAGAN. No; they are not bound by them.

Senator FLETCHER. I think they have about 320 appraisers throughout the country. Have you anything further to say, Mr. Flannagan?

Mr. FLANNAGAN. Mr. Chairman, in response to your suggestion that I address myself to the objections of Gov. Harding, I may add that the letter from Gov. Harding to Senator McLean under date of February 16, 1921, giving his objections to Senator Fletcher's bill (S. 620) I had not seen when I wrote the letter to Senator Fletcher under date of April 15, 1921.

That letter, I think, to a large extent anticipates the objections Gov. Harding makes, and the letter of Senator Fletcher, published in the Journal of Commerce, in my opinion, fully meets them, both letters having been made a part of this record.

Gov. Harding's letter may perhaps be summed up in the one sentence, that the assets of the Federal reserve banks must be kept liquid, and that obligations of member banks, whether in the form of acceptances or promissory notes, when secured by farm-loan bonds, or even Government bonds, or any other security than commercial paper, are not liquid assets (bankers' acceptances being excepted) and therefore should be ineligible for rediscount.

To the first proposition that the assets must be kept liquid I heartily assent, but to the second, that commercial paper and bankers' acceptances only, constitute liquid assets, I most unhesitatingly dissent.

To consider the matter, however, as Gov. Harding presents it, I beg to comment on the following extracts from his letter, which I think constitute a fair summary thereof:

"Bankers' acceptances should be the most liquid class of bank paper, and consequently should be issued only for the purpose of financing commercial transactions."

I suppose it is agreed that we name by "liquid paper" or "liquid class of bank paper" such paper as is negotiable, and at short time, upon which payment may be depended at maturity. I can not see that it follows "consequently" that such paper shall be issued exclusively for commercial purposes.

It is the short maturity which makes it liquid, not the purpose for which it is issued. It is the credit of the bank acceptor and the belief that it will be paid at maturity, which makes it desirable, not whether it was given to facilitate the transfer of cotton to Liverpool, or to bring fruit from Sicily or Jamaica. The transfer of the commodity makes it a commercial transaction, but it adds no security to the acceptance nor does it make the payment at maturity more certain. In no way does it add to the "liquidity" of the paper. The bill of exchange, which afterwards becomes a bankers' acceptance may be a "finance bill" drawn to adjust balances, or to influence the current rate of exchange. The acceptance may have grown out of the sale and transfer of securities, and have had no connection whatever with the sale of a commodity.

Bankers' acceptances are desirable because they are good debts, and paid at maturity. They are liquid because of such payment, when they have a short time to run. They are more desirable when they are secured by a Government bond or a farm loan bond, as a continuing security, because more certain of being paid at maturity than when representing the transfer of a commodity which may have been resold a dozen times, or even consumed. Why take the shadow for the substance? Why consider a debt arising out of the transfer of a commodity better, because you can call it a "commercial transaction?"

In my own experience I have purchased cargoes of fruit in the island of Jamaica, paid for them by a London bankers' acceptance, and sold the fruit in New York City. The bankers' acceptance was current in London, and payable months after the fruit was sold and paid for in New York. Have you any idea that the proceeds of these cargoes added to the eligibility of the London banker's acceptance in the discount market, or had any connection with their payment at maturity? Were these acceptances growing out of a commercial transaction more liquid, because they did not have pledged for their payment at maturity, an English consol or a United States bond?

Again Gov. Harding says:

"The limitations as to the character of the transaction out of which the acceptances must arise were necessary to the development of the acceptance business, in accordance with sound banking principles, and these limitations are in the board's opinion still necessary to the maintenance and further development of that business."

The "limitations" to which Gov. Harding refers are those of the Federal reserve act which limits eligible bankers' acceptances to those based upon the "importation or exportation of goods." Dr. H. Parker Willis, the expert who was employed by Congressman Glass in connection with the framing of the Federal reserve act, and no better authority exists as to the intent of that law, says, concerning this in his book American Banking (p. 39):

"This limitation is imposed in order to avoid an undue development of the acceptance business on the part of banks, which might not be of the highest degree of solvency, or might have embarked upon an acceptance business to too great an extent in proportion to their resources."

It was seen early in the development of the Federal reserve act, that its operation could not be confined to the rediscount of short-term paper for its member banks, and the holding of legal reserves, and also that no general market could be established in this country for the purchase and sale of bankers' acceptances, unless the Federal reserve bank had authority under the law to deal in such acceptances. The international bankers had established too high a degree of credit and importance, for their paper to be ignored, and in the development and encouragement of foreign trade it was necessary that the Federal reserve banks might have dealings in the open market.

"Bankers' acceptances," therefore, really conveyed to the mind the obligations of bankers engaged in international trade, these acceptances being the mercantile expression of the operations of commerce in the transfer of commodities from one country to another. But no one considered the transfer of the commodity as adding to the security of the paper or its liquidity. It was to encourage foreign trade that these acceptances were made eligible for discount, and probably to some extent because the foreign banking interests were too strong to be ignored.

The expression "in accordance with sound banking principles" is a generality which means nothing, unless it is specifically stated what principle is violated. If the governor means that it is a violation of a sound banking principle to pledge Government bonds or farm loan bonds as security for a banker's acceptance, I will say that I have procured, in my experience, the acceptances of leading bankers in New York, both with and without the deposit of similar security, and that if he will name any international banker he likes, and furnish the Government bonds or farm loan bonds to be deposited as collateral security, I will undertake to procure the banker's acceptance, which he considers the "most liquid class of bank paper."

To quote again:

"Because of the self-liquidating character of the transactions out of which they arise and the credit of the accepting banks, bankers' acceptances are bought and sold in the open market at rates generally lower than any other class of commercial paper. To permit bankers' acceptances to be made for purposes other than the financing of strictly commercial transactions would not only violate fundamental principles of banking, but would make impossible the development and maintenance of a satisfactory open market for such acceptances."

It is hardly necessary to show up again the fallacy concerning "self-liquidating paper." Senator Fletcher in his letter fully points out that there can be no such thing as "self-liquidating" paper whether classified as "commercial" or not. The fact is that the element of credit does not enter into a transaction involving the transfer of a commodity where the title to the commodity and possession is retained by the seller, and such a transaction can not properly be called "commercial."

The lower rate of discount charged for bankers' acceptances comes from the good credit of the banker, the short maturity, and competition in the open market.

I have already shown that the purpose for which a banker gives his acceptance has nothing to do with its liquidity. It is no concern of the buyer in the open market, and he has no means of ascertaining the purposes for which the debt was created.

To say that if created for other than "strictly commercial transactions" it violates "fundamental principles of banking," needs sane explanation beyond the mere assertion. Bankers give acceptances against security satisfactory to themselves. If Gov. Harding should say to Mr. Morgan, for instance, that the acceptances of his firm given for other purposes than "strictly commercial transactions" was a practice "in violation of fundamental banking principles," Gov. Harding would probably be shown the door. If the "development and maintenance of an open market" for bankers' acceptances is dependent upon the result of inquiries by the Federal reserve

board as to the purpose for which the acceptances are made in each case, I fear we shall never have an open market for such acceptances.

Another extract:

"It is apparent of course, that acceptances made against the deposit of farm loan bonds would not be liquid, but on the contrary would grow out of a very unliquid type of investment transactions."

This is a mere reiteration of the position taken by Gov. Harding that acceptances or the direct obligation of member banks when secured by farm loan bonds, are not liquid. It is the question at issue. I think it has been shown conclusively that liquidity of paper consists of short maturities, and payment when due, a proposition he will not deny. It can not be possible that the Governor maintains that the deposit of farm loan bonds as security will prevent payment of bank acceptances when due, short maturity, the other requisite of liquid paper, being provided by the Fletcher bill. The recent experience in the market price of the two leading commodities which we produce for export, would certainly seem to justify the belief that farm loan bonds have more than an equal stability in market value than wheat or cotton, and consequently are as desirable for collateral security.

Again the letter says:

"Unlike acceptances issued to finance commercial transactions, acceptances against the deposit of investment securities would not be automatically self-liquidating and would therefore have to be renewed from time to time."

This is a mere assertion of the oft-repeated fallacy that commercial transactions are automatically self-liquidating. If the Governor will point to one single transaction of a banker's acceptance held by a reserve bank which automatically liquidated itself, or even a case where the proceeds of the original commodity which gave rise to the acceptance was used specifically for its liquidation or payment, I will concede that he has that much reason for his position, but until he can do this he should abandon the absurd position with reference to self-liquidating paper.

As to forced renewals, I venture to say that the recent experience of the Federal reserve banks with reference thereto was due largely to the inability to obtain satisfactory prices for either securities or commodities by reason of an abnormal forced liquidation, the abrupt decrease in prices being far more marked in the case of commodities than of securities.

Gov. Harding says:

"It is significant to observe that member banks are not permitted to accept drafts against the deposit of United States bonds."

This is making a distinction without any difference. Banks are allowed to discount their obligation or promissory note at the Federal reserve banks with United States bonds as collateral security, which is the same privilege which is asked for farm loan bonds.

As far as the results are concerned, it is immaterial whether the obligation be made in the form of a promissory note or in the form of an acceptance. It matters not whether the obligation to pay be expressed by the signature of the payer at the bottom of a promissory note, or across the face of a bill of exchange. Both methods are provided for in the Fletcher bill because of the practice of the Federal reserve banks to discount bankers' acceptances at a lower rate than other paper and it is thought that with such security the farmer should be entitled to the benefit of the lowest rate. In either case, however, the demand will be created among banks for farm-loan bonds, thus making a broad and constant market for these bonds, which will enable the Federal land banks to properly function by carrying out the intent of the farm-loan act "to provide capital for agricultural development."

Finally, Gov. Harding says:

"The paper acquired by the Federal reserve banks is the collateral security for Federal reserve notes, which constitute by far the greater part of the paper currency of the country. It is most important, therefore, that the liquid character of the paper which may be purchased by Federal reserve banks should be maintained. To the extent that the acceptances and direct obligations described in the bill were used as collateral for Federal reserve notes, the elasticity of and the power of control over such notes would be diminished."

This statement is but another assertion that obligations of member banks secured by farm-loan bonds would not be liquid, which is the gist of the whole matter.

He does not contend that such obligations secured by Government bonds are not liquid and diminish the elasticity of the currency, because in practice such obligations are now held as security for the issue of Federal reserve notes, and also Federal reserve bank notes, to a much larger extent than farm-loan bonds will ever attain under the Fletcher bill.

The governor fails to see or at any rate fails to draw the distinction between the security for a currency and its elasticity. The two have no connection. As far as security is concerned, we have had the experience of more than 50 years in the national bank currency, that the security of Government bonds for such currency has been satisfactory, in the fact that not one dollar has ever been lost by any holder. We have the same experience in the Canadian bank currency as to security, where the circulating notes of failed banks, which under the law bear interest from date of failure, go to a premium.

Elasticity, or responsiveness in volume, increasing or decreasing according to the demands of trade, is effected under the Federal reserve act without reference to the question of ultimate security. The people in their business transactions have no control of this volume, as they should have. By making the bonds held as security, interchangeable with currency into an interest-bearing debt at the will of any holder, or vice versa, we would have a true elastic currency.

The volume of the circulating medium is controlled by the will of those having charge of our banking system, in an ineffectual manner by advancing or lowering the rate of discount, and this power may possibly be exercised to the detriment of trade, but there is no other method available to them under the law.

The tendency under the national bank act was always toward inflation, for the reason that a double profit was made by the banks, in the interest received on the collateral bonds deposited and on the circulating notes outstanding, no restriction in volume being effected except by the payment and cancellation of Government bonds, held as security.

Under the Federal reserve act this anomaly of double interest is confined to the Federal reserve bank, in the Federal reserve bank notes, which they are allowed to issue, and Gov. Harding will hardly contend that these notes are not secure, or that "the elasticity of and the power of control over such notes" is thereby "diminished."

The CHAIRMAN. If there is nothing further at this time the committee will adjourn until Monday next, October 17, at 10.30 o'clock.

(Whereupon, at 1.10 o'clock p. m., the committee adjourned until Monday, October 17, 1921, at 10.30 o'clock a. m.)

SALE OF FARM LOAN BONDS.

MONDAY, OCTOBER 17, 1921.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., in room 303, Senate Office Building, Senator Samuel M. Shortridge presiding.

Present: Senators Shortridge (chairman of subcommittee), Fletcher, Glass, and Weller.

The CHAIRMAN. The committee will come to order. The committee will hear further from you, Senator Fletcher, if you care to add anything to what has already appeared.

Senator FLETCHER. I want to go on with a few other matters. I will first ask Mr. Silver to make a statement.

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE, AMERICAN FARM BUREAU FEDERATION.

Senator FLETCHER. Mr. Silver, state your name, residence, and occupation.

Mr. SILVER. My name is Gray Silver, a West Virginia farmer, and I am the Washington representative of the American Farm Bureau Federation.

Senator FLETCHER. What is the nature of the work of the American Farm Bureau Federation?

Mr. SILVER. The Farm Bureau is a voluntary organization of farmers, with some million and a half members.

Senator FLETCHER. Mr. Silver, I sent to you two bills, S. 620 and S. 2183, which the subcommittee is now considering. Have you had time to examine those, and have you reached any conclusion about them? If so, I will be glad to have you state it.

Mr. SILVER. Yes, Senator, I have read both of those bills. One of them I have studied right carefully. I do not know them by number.

Senator FLETCHER. S. 620, which has to do with rediscounting; is that it?

Mr. SILVER. That one appealed particularly to me, for the reason that agriculture is in sore distress for the lack of sufficient money credits. The canvassing of the whole country during the war time, for patriotic purposes, to secure moneys to buy Government securities, has fine-tooth combed the agricultural communities and districts of the great reserve that was usually there and used for the purpose of one neighbor financing another, the way they help each other out. That money has been carried out by Government bonds, it was paid over, and went into Government depositories. The Government depositories are our national banks, which are city banks.

Following that process of gathering in this money, commodity prices broke. The prices that the farmer would ordinarily get for his crop were not forthcoming. Crops were sold on a very much lower basis. So the money was not carried back to the rural districts. It has left them stripped of money, and in a deplorable conditon in many parts of the country. That is one of the things that has not been emphasized and has not been talked of. A great many of our people do not realize what a reverse it was, and how the money is missed when it is gone.

But the main thing is that agriculture must be financed. Agriculture to-day does not have the opportunity of approaching the great national reservoirs of money and credit as other businesses do. The thing must be done, and this is one of the methods that we believe will be helpful—to enable agriculture to approach the national reservoirs of moneys and credits in order that it may properly finance itself; otherwise it will be handicapped in carrying on.

I think that these farm loan bonds should be eligible for rediscount at the national banks and at the Treasury.

Senator FLETCHER. You feel that any bank of the Federal reserve system should be authorized to buy or sell these farm loans bonds and that any member bank of the system may accept time drafts against a deposit of such bonds as security, and that acceptances of a member bank or the direct obligation of such bank maturing within, say, 90 days——

Mr. SILVER. I do.

Senator FLETCHER (continuing). Ought to be eligible for rediscount?

Mr. SILVER. I do.

Senator FLETCHER. The effect of that would be to create a broader market for the bonds, would it not?

Mr. SILVER. It would create a broader market for the bonds; but it does more. It makes the farmer's ordinary credit a more liquid credit and enables him to get money, enables him to appoach the national reservoirs of moneys and credits on a parity with other groups. Other people can issue bonds or other securities and sell them. They can make their bonds more liquid, make their credits more liquid, and why should not a farmer? Why limit the farmer?

Senator FLETCHER. I understand the Farm Loan Board, judging from its experience and observation and practice, has about reached the conclusion that the limit of the sale of farm loan bonds in a year, or the public absorption of these bonds, will not exceed $200,000,000, say—probably $150,000,000. From your study of the conditions and the needs of agriculture, do you think that is a sufficient supply?

Mr. SILVER. It is wholly inadequate. That amount of money will not refund the existing indebtedness. According to the last census of farms occupied by the owners, there are some four billion and a quarter—using round numbers—of outstanding mortgages. If the same rate of indebtedness applied to tenanted farms, there is between six and seven billion dollars of existing farm indebtedness. I am talking of long-time mortgages. It would take at the rate of $1,000,000 a day for 20 years to refund existing mortgages without getting a new dollar of money for farm mortgage purposes.

Consequently, whenever the Farm Loan Board is functioning at a rate less than a million a day it is not keeping up with current needs in refunding the existing loans. I do not mean to say there that every loan a farmer gets is going to be a farm loan accommodation from the Farm Loan Board. But, as the country has been stripped, as I said a minute ago, of the great reserve which it ordinarily fell back upon, and as the bank of deposit can not be expected to loan from its current deposits on these 25 or 35 year loans, the farm loan bank is the only place the farmer has to go to get long-time money when he is called.

What happens when he is called and can not get it there? He is held up and distressed, as is shown by a recent referendum of ours; for tens of thousands of farmers have paid from 6 to 10 per cent for money, and from 2 to 10 per cent brokerage on top of that. When they can not get it through the regular Government agency—the agency that was intended to accommodate them when funds were needed—then they are at the mercy of these unscrupulous farm loan sharks, and they do take an unmerciful toll.

Senator FLETCHER. How much do you feel that the farm loan banks, through the supervision of the Farm Loan Board, ought to supply to the farmers of the country?

Mr. SILVER. That might be a little hard to say.

Senator FLETCHER. I mean, how much do you think would approach the actual requirements of agriculture? How much a month do you figure ought really to be loaned in order to make the system reasonably effective?

Mr. SILVER. It ought to be based on the figures we have, of a million a day and up, rather than anything less.

Senator FLETCHER. That would be $365,000,000 a year.

Mr. SILVER. Yes, and further if I am right—and the gentlemen of the board will correct me if I am not right—during the sale of the $40,000,000 bond issue one bank had applications approximating $40,000,000. Is that right? If that be true—that 1 of the 12 banks asked for as much money during that time as the whole 12 were getting—it shows the insufficiency of the supply through that channel.

The CHAIRMAN. Was there a market for the forty millions?

Mr. SILVER. Senator, there is a market at the market price. The bonds may have paid a little too low a rate of interest, but it is better to have a little higher priced money than not to have money. Farmers had better have paid 5 and 5½ per cent than to pay 6 to 10 plus 2 to 10 per cent commission. In other words, that money cost 15 to 20 per cent to the farmers that were in distress. I do not mean that every bank canceled its loan and made him pay, because the country banks carried the loans at the same rate. But the money he has had to buy now cost 15 to 20 per cent; and for this reason they had better have paid 5½ than 15 to 20.

When we talk about the question, is there a market, it is a relative proposition; there is a market at some price and there may not be at another price.

The CHAIRMAN. How about the market for these bonds now, of sixty million? Are you advised as to that?

Mr. SILVER. No; I am not. The board is here and can give the exact figures. But money is somewhat easier.

Senator FLETCHER. Coming right down to the point, in order to raise this supply of money—in order to find this money for the farmers—we have got to find a market for the bonds, have we not?

Mr. SILVER. Certainly; there is no other way to solve it.

Senator FLETCHER. So the problem resolves itself into a problem of broadening the market and increasing the demand for the farm loan bond, does it not?

Mr. SILVER. There is no question about it.

Senator FLETCHER. Because it is the proceeds of those bonds that go to the farmers through this system?

Mr. SILVER. It is the proceeds of those bonds that will keep a large part of the 2,000,000 farmers who would be bankrupt if liquidation were enforced from actually going into bankruptcy and not being able to carry on, for by that process they will be able to amortize their loans and pay them off in what ought to be much better years to come.

Senator GLASS. Are you familiar, Mr. Silver, with what is known as the acceptance system in banking?

Mr. SILVER. I am a farmer, but I know something about it. I am not a banker.

Senator GLASS. It does not exist in any other country as it exists in this country, and I wondered whether you were familiar with it. You advocate the provision in this bill for acceptances?

Mr. SILVER. Yes.

Senator GLASS. You know that means borrowing without any reserve at all behind the transaction. It means 28,000 bankers selling their indorsements to anybody who comes along without holding any reserve behind the transaction. I wondered if you were familiar with it.

Mr. SILVER. I am not testifying as an expert in banking, but I am testifying to the fact that the farmers do not have the opportunity of approaching the national reservoirs of moneys and credits as they should be entitled to and to which other groups are entitled. And anything that broadens that approach, that will enable farmers in this distress—and that distress is greater at this time than it has ever been heretofore, at least to my recollection, for the conditions that exist make it so—unless that is done we can not return to any permanent prosperity, for the farmer can not carry on with the present limits in financing, and in addition all industry enjoys the bank and trade acceptance method of banking, why not the farmer, for he has the highest class self-liquidating security to be found.

Senator GLASS. Why do you say, Mr. Silver, that the farmers have not the same avenues of approach to credits that anybody else has now?

Mr. SILVER. If the ordinary farmer had the opportunity of other groups he would get money that to-day he is denied.

Senator GLASS. Why? What I am trying to arrive at is why has he not the same access that any other industry has to the credits of the country?

Mr. SILVER. The Congress of the United States has not seen fit to give him that instrument by which he may approach.

Senator GLASS. I have been under the impression that they have a more advantageous access than anybody else. The law certainly does not textually discriminate against farmers; on the contrary, it textually discriminates in favor of the farmers. I see Mr. Lever sitting there. He was largely responsible for an amendment to the Federal reserve act that gives farmers six months' credit as against 90 days' credit for ordinary mercantile or industrial transactions.

Mr. SILVER. That was a splendid feature, and I am not here to find fault with or criticize it, nor am I here to try and pull down the Federal reserve or other institutions that may be serving our farmers. But I am here to urge that the farmer have an approach equal to any other group to the national reservoirs of money and credit.

The Federal Government in its Constitution reserves to the Government the right to the production of money—not to the individual, but the Government reserves that right. Then it provides, under certain rules and regulations in accordance with law, a method for certain groups of people as a whole to approach that money.

Senator GLASS. What I am trying to get at is in what particular and at what point is the farmer excluded. A moment ago I cited the fact that a farmer has six months' credit under the Federal reserve system.

Mr. SILVER. Yes.

Senator GLASS. As against 90 days for mercantile transactions or industrial transactions.

Mr. SILVER. Yes.

Senator GLASS. Congress two or three months ago passed an act doing something that had never been heard of before in the whole history of American banking. It authorized the Secretary of the Treasury to deposit not exceeding $50,000,000 at any one time in the Federal farm-loan banks.

Mr. SILVER. As working capital.

Senator GLASS. No; to be loaned to farmers on their evidence of indebtedness. There is not any merchant or manufacturer in the United States who may obtain accommodation of that sort.

Mr. SILVER. Just a minute, Senator. The farmer has no approach except through his local banking institution. He is not known away from there. Let me give you an illustration of that. Within recent months, not many months since, a farmer over in the Valley of Virginia, 65 or 70 miles from here, who is a dairyman and ships milk to this city, needed some $5,000. The break in price had gotten him in the financial situation that lots of us are in, that he needed money. He needed some $5,000. The man is not a poor man, as we usually use the term, nor is he rich as we refer to it in the city. Since deflation he is worth around $150,000. He owed $27,000 on his lands. He needed $5,000. The local bank could not accommodate him, for they had loaned up to their loaning limit under their capitalization and deposits. They could not give further accommodations.

He came over here and I took him to one of the largest banks in this town, and they frankly said, after having the situation explained, listening patiently and courteously—they were mighty nice to us in every way, except that they did not give us the money—they said, "No doubt that is a good loan, but we do not want a farm account here; it is too slow pay."

Senator FLETCHER. Is not the answer to the Senator's question really this, that under the commercial banking system, and our system is primarily a commercial banking system, the banks can not afford to tie up their loans on long time? The farmer needs long-time accommodation. Is not that the reason why?

Mr. SILVER. That is true, but there is more to it.

Senator GLASS. My objection, if I shall ultimately object to this bill, is that is exactly what you are proposing—to tie up their loans on long-time collateral. In other words, you are proposing to connect up a commercial banking system with an investment banking system.

Senator FLETCHER. Through the liquid assets of the farmer in the shape of bonds.

Senator GLASS. I have never been taught that bonds were liquid assets as collateral.

Senator FLETCHER. We won't argue the case now. If we get into an argument, we will never get through with the hearing. I would like to get the statements in first, and then we will argue it afterwards.

Mr. SILVER. What I am trying to bring out is that this farmer, to whom I have referred, had actual security at home, collateral of his kind. He could not carry it around and sell it to other people. I took that same man over to Baltimore. We approached one of the larger banks there, and with just the same result as we had here—"I have no doubt it is a good loan, but we do not want farm accounts." Why? Because they are too slow; they do not come back.

Senator GLASS. Right there let me ask you: You know this bill will not induce the banks to take a farm account?

Mr. SILVER. If they have a broader use of these farm loan bonds, more farmers will have money through that channel.

Senator GLASS. How?

The CHAIRMAN. I do not get that.

Senator GLASS. They have got to get it from the local bank.

Mr. SILVER. If it was so all banks could trade in these bonds, if it was so a city bank could purchase them from a local bank or some other bank, they would be accepted in a city bank. But the man can not bring his farm down here. He can, however, bring the bond down here, by the agencies the Government has set up. And if it is made so it can be eligible for rediscount, it is an instrument he can use, representing the farm, and makes it more liquid.

Senator FLETCHER. It is circulating notes on it.

Mr. SILVER. It makes it a more liquid asset and he can carry it through the agencies to the place where money exists and compete with the other people that buy the money, such as the manufacturer and others.

The CHAIRMAN. It may call for repetition, but just wherein is the farmer at a disadvantage? You used that word.

Mr. SILVER. Yes.

The CHAIRMAN. Where is he at a disadvantage in approaching a given bank to get a loan? Just wherein is he at a disadvantage?

Mr. SILVER. I will repeat to some extent, and I will use the farmer that I carried from home down here. Then on the other hand we take the packers or some recognized group—they would have issued their note. Our friend Wanamaker, of Philadelphia, or some other merchant, would have issued notes or bonds and sold them on the open market. The farmer can not do that except through this agency which you provide. The merchant is provided with an instrument by which he can do that. They can approach the national reservoirs of moneys and credits in a way that the farmer can not but sould be allowed to do.

This is one of the things that will allow him wider approach to the moneys other than those that are in his local bank. Keep in mind the local bank often loans up to its maximum under the law, and when the farmer can no longer get accommodation there he is denied accommodation anywhere and everywhere in the way of an approach to money, for there is no other method of approach provided.

Senator GLASS. If a bank has loaned to its maximum, how can it loan any more money to a farmer, a manufacturer, a merchant, or anybody else?

Mr. SILVER. I grant you that. But the other fellow—the manufacturer or the merchant, as I illustrate, can issue his notes or bonds and sell them in the open market. The farmer can not.

Senator GLASS. Yes; he can. Why can he not?

Mr. SILVER. The farmer as an individual is too small. But when you use him collectively his paper is not eligible for discount. Wanamaker's note would be eligible for discount through some other bank, but the farmer can not do that. As it now stands the purpose of this bill is to make it possible.

Senator FLETCHER. Because the farmer's paper is not considered commercial paper.

Senator GLASS. The farmer's paper is commercial paper; and, as a matter of fact, hundreds of millions of dollars are loaned every year by member banks on farmers' commercial paper.

Mr. SILVER. In the local banks the farmer can go in and get accommodation for 90 days, and the bank knows and the farmer knows that no crop can mature in that time.

Senator GLASS. He can go in not for 90 days but for six months.

Mr. SILVER. By law he can, but in practice he gets 90 days. The Federal reserve law does provide for six months, and to some extent it is used, but the local banks as a rule make it 90 days, and at least four months is the limit. They do not locally grant the six months credit to which you refer, although the law provides for it. But when a farmer goes in there the local bank knows and the farmer knows that there is no crop maturing in 90 days to liquidate that indebtedness. That is the understanding between them. But when you go to borrow from the city bank it has no such faith in the local man. It don't know him, and he does not get that accommodation; he goes without money, for he does not have that instrument of approaching the national reservoirs of moneys and credits.

It is reflected in many ways. It is reflected in the farm loan itself. The maximum loan that can be made under the Federal farm loan act is $10,000 to any individual. Why put a maximum on the farmer and put it on no other?

The CHAIRMAN. Because you want to loan to a great many small farmers and help out the many rather than the few.

Mr. SILVER. That does not finance agriculture.

Senator GLASS. You know, of course, that a limitation is put on the other ones.

Mr. SILVER. The limitation of securities—of collateral.

Senator GLASS. I can not go to any bank and make a loan that exceeds 10 per cent of its capital.

Mr. SILVER. No; but that is approached in another way. That is your proportionate part——

Senator GLASS. And so is this.

Mr. SILVER. Wait a minute.

Senator GLASS. That is the very point.

Mr. SILVER. Wait a minute. You could go to any bank and get 10 per cent after having gotten 10 per cent at one bank you could get 10 per cent at as many other banks as you could furnish with proper collateral. But it could not be done in the case of a loan on a farm, because that is the maximum loan under the system. It is a question of the availability of money in the different banks.

Senator GLASS. Under a good banking system I could not go to any other bank, not if the bank at which I had borrowed the limit knew anything about it.

Mr. SILVER. You will admit it is often done, isn't it?

Senator GLASS. I admit that banks often break, and they break because of unsound practices like that. In Canada the banks there require you at the beginning of your fiscal year to state what your requirements will be and what you are going to do with the money during the year, and you are not permitted to keep an account with any other bank.

Mr. SILVER. But is not the practice here that no matter what is borrowed at some bank, if I go into some other bank, talking about the ordinary business transactions, and have ample collateral, I get a loan. They do not ask me how much I have borrowed at my home bank. They say, "What kind of security have you got to secure me with," and if I can produce collateral that is satisfactory they don't give a "kitty" what else I have borrowed. They are protected themselves with my deposit of collateral.

Senator GLASS. Of course that is liquid collateral on which the bank makes the loan.

Mr. SILVER. And that is what we want—to make the farmers assets more liquid.

Senator FLETCHER. Have you had occasion to examine S. 2183? I would ask particularly whether or not you think it is advisable to have the Secretary of Agriculture an ex-officio member of this board, or in some way to have the Department of Agriculture directly related to the work?

Mr. SILVER. I think that it can not be too directly connected. I think that the farm-loan banking system is purely agricultural banking, and that it should be as close to agriculture as it can be. However, I am not of the opinion that it would be necessary to change the number of the board at this time. I am looking forward not only to a greater volume of business, but a freer action on the part of the board, which would take more people, more personnel. I hope that one of these days Congress will think well enough of it to pass the commodity loan bill, which is offered by Senator Kenyon and, I think, others; there are several of them—to create as a part of the banking system a department or bureau providing for these commodity loans; that is, the warehouse-receipt arrangement. And you will need a good, strong board there.

So I do not feel that it ought to be reduced. While the board has not functioned as freely as we would have liked to have it, I do not feel that it is all their fault. I feel, in the first place, that they had to start and get under way, get their system established. Then the tax-exemption feature was contested in the courts. Then moneys were high priced. I realize that all of these things had to be worked out. For that reason I am for giving them a chance by giving them lawful authority and all needed equipment and holding them to strict accountability as to the administration.

In other words, it is an agricultural banking system and must be as close to agriculture as it can be. It must know not just the echoes but must know the heartbeats of agriculture if it is going to serve agriculture. How best to tie

that up, if it needs closer tying up, at the present time I do not have in mind. But it must function so that it serves agriculture, and to do so must be close to it.

Senator FLETCHER. Your view, then, is that if they manage to find a way to loan farmers as much as a million dollars a day, and if they have this commodity loan plan added to their duties——

Mr. SILVER. Yes.

Senator FLETCHER (continuing). That the membership of the board now is not too large, if that is done?

Mr. SILVER. That is my belief.

Senator FLETCHER. If that is not done, if they go on functioning to the extent of loaning only, say, $150,000,000 a year, is not the overhead rather heavy?

Mr. SILVER. If that is to be their limit the farmer will have to look elsewhere for financing, and consequently it will not be of the great service to agriculture that we people who advocated its passage hoped it would be. It must function in greater volume than $150,000,000 if it is to serve agriculture with long-time moneys.

Senator FLETCHER. And the work of the board, systematized as it is——

Mr. SILVER (interposing). The work of the board depends on the volume of business. If they are going to loan a lot more money there is going to be a great amount of work to be done. If they are going to loan less, it will take less people to do it.

Senator FLETCHER. That is all; thank you.

Mr. LOBDELL. Mr. Silver, have you any idea of the work that the board actually does?

Mr. SILVER. No; I was not discussing that. I was just expressing my belief from what information I had.

The CHAIRMAN. That is all, Mr. Silver.

STATEMENT OF MR. CHARLES E. LOBDELL, FEDERAL FARM LOAN COMMISSIONER AND EXECUTIVE OFFICER, FEDERAL FARM LOAN BUREAU.

Senator FLETCHER. Mr. Lobdell, you are chairman of the Farm Loan Board?

Mr. LOBDELL. Farm loan commissioner and executive officer. The Secretary of the Treasury is chairman ex officio.

Senator FLETCHER. How long have you had that position?

Mr. LOBDELL. Since April, 1920.

Senator FLETCHER. Do you remember when that suit was commenced?

Mr. LOBDELL. July, 1919. Smith v. Title Co. Is the suit you refer to?

Senator FLETCHER. Yes.

Mr. LOBDELL. July, 1919.

The CHAIRMAN. When did you say it was commenced?

Mr. LOBDELL. It was instituted in Missouri in July, 1919. That is my recollection, and I think it is accurate.

Senator FLETCHER. It was decided by the Supreme Court in February of 1921, was it not?

Mr. LOBDELL. February 28 of the present year, yes; the last day of February.

Senator FLETCHER. Were you practically tied up with all your operations from the time it was commenced until February of this year?

Mr. LOBDELL. No, sir. Just prior to the institution of the suit the Federal farm loan banks had sold something around 56 millions of bonds, and the proceeds of these bonds were available.

Senator FLETCHER. What did you do; you did not sell any more bonds after that suit was commenced, did you?

Mr. LOBDELL. No, sir.

Senator FLETCHER. You closed up the loans then pending, did you?

Mr. LOBDELL. As far as we could; yes, sir. As you recall, Congress authorized some additional purchases by the Treasury.

Senator FLETCHER. Did you make any loans, actually make any loans; and if so, to what extent, if you recall, from the time the suit was commenced until it was decided?

Mr. LOBDELL. Senator, that would be rather an estimate, but approximately one hundred millions.

Senator FLETCHER. Were the banks kept occupied with work during that time?

Mr. LOBDELL. The banks were kept occupied with work. Anticipating an earlier decision, we did not slow down as soon as we evidently should have done. The banks were kept occupied with work until the spring of 1920, when the Supreme Court, which had had the matter under consideration for some time, recessed, and ordered a reargument in the autumn of 1920.

At that time they discontinued taking applications altogether; in fact, shortly before that, in February of 1920, they had discontinued taking them except subject to closing after favorable decision. After that adjournment or postponement of the case they took no applications at all.

Senator FLETCHER. The Supreme Court finally upheld the validity, or the constitutionality, of the act?

Mr. LOBDELL. Entirely so.

Senator FLETCHER. In all its essential features?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. Then what did you do; what did the board do?

Mr. LOBDELL. The board in the meantime, and about the same date, perhaps two or three days later—when the Senate passed an act enabling the bonds to be changed so that the call date could be extended—immediately had new bonds printed or engraved, and made the offering of $40,000,000, of which some mention has been made here.

Senator FLETCHER. Was it necessary to change all the plates?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. And have a new print entirely?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. On account of the——

Mr. LOBDELL. Change in the call date.

Senator FLETCHER. On account of the change in the call date?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. From what time?

Mr. LOBDELL. From a 5-year to a 10-year call.

Senator FLETCHER. That was the main reason for the change of the plates, was it?

Mr. LOBDELL. That was the only reason for the change of the plates. Of course, new bonds would have had to be printed anyway. But the change in the plates involved something like a month's additional delay.

Senator FLETCHER. You got those bonds on the market when?

Mr. LOBDELL. The delivery of those bonds was made on the 1st of May; the sale and delivery on the 1st of May.

Senator FLETCHER. The 1st of May?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. They are dated the 1st of May?

Mr. LOBDELL. Yes, sir; they are dated May 1.

Senator FLETCHER. Were they actually taken by that time?

Mr. LOBDELL. Not the total amount, but the sale began on the 18th of April, and a substantial volume had been absorbed and delivered on the 1st day of May.

Senator FLETCHER. When was the whole delivery complete, the whole amount taken, if you recall?

Mr. LOBDELL. Approximately the 20th of June. I would not venture the exact date, Senator.

Senator FLETCHER. That is, the whole 40,000,000?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. Do you remember the aggregate amount of applications then on hand?

Mr. LOBDELL. On the 30th of June?

Senator FLETCHER. Yes.

Mr. LOBDELL. No; I do not.

Senator FLETCHER. I wonder if you have figures to show that?

Mr. LOBDELL. Yes.

Senator FLETCHER. The aggregate amount of applications for loans through the different banks, on the 30th of June?

Mr. LOBDELL. Yes; I could supply that.

Senator FLETCHER. I would like to get that.

Mr. LOBDELL. Shall I supply that and let it go in the record?

Senator FLETCHER. Yes; I would like to have that.

Mr. LOBDELL. Very well.

The CHAIRMAN. Do you mean that on the 30th of June you had disposed of the forty millions of bonds?

Mr. LOBDELL. Yes.

Senator FLETCHER. Also can you tell us now the aggregate amount of loans to farmers, from February to date, practically to date, to the end of September.

Mr. LOBDELL. No. I could give a pretty close approximation, Senator. To the 30th of September it would be approximately forty-five million.

Senator FLETCHER. That is forty-five million?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. From February to September, 1921?

Mr. LOBDELL. Of course they did not begin making loans, they did not begin taking applications, until the 15th of April.

Senator FLETCHER. I see. That is, the Federal land banks?

Mr. LOBDELL. The Federal land banks.

Senator FLETCHER. Did not begin receiving applications until the 15th of April?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. And from that time up to about the 30th of September you had loaned something like forty-five millions?

Mr. LOBDELL. That is an approximation. I might be missing that a little. I have the figures in mind for the last three months. The earlier months, of course, started off very slowly.

Senator FLETCHER. You could probably get the figure pretty straight?

Mr. LOBDELL. I can give you the exact figure.

Senator FLETCHER. If you will, and put that in the record. I would like to know that, just to show the amount.

Mr. LOBDELL. Very well.

Senator FLETCHER. I would like also to have the number by districts, if you can furnish that information.

Mr. LOBDELL. I will do that; the loans closed, by districts, to September 30?

Senator FLETCHER. Yes; and the aggregate amount of applications now pending, not yet acted upon, up to September 30, if you can, by districts.

Mr. LOBDELL. I will include that in the same statement.

Senator FLETCHER. How many national farm loan associations are there?

Mr. LOBDELL. Four thousand two hundred and twenty active.

Senator FLETCHER. Are there any pending applications for charters?

Mr. LOBDELL. We are granting them daily. I do not know whether there were any on the desk this morning or not.

Mr. LEVER. I saw one this morning.

Mr. LOBDELL. I recall that we granted three on Saturday.

Senator FLETCHER. They are still coming in?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. Applications for new national farm loan associations?

Mr. LOBDELL. Yes, sir; not so rapidly, of course, because the country is pretty well organized.

Senator FLETCHER. Yes. According to your experience, Judge, what would you say, if you can estimate, the public will take of these bonds a year under present conditions, or even under more normal conditions?

Mr. LOBDELL. That, of course, is a problem that has not been thoroughly tried out. As you know, the Treasury never permitted us to make continuous offerings, and the present offering, succeeding the one in the spring, is the first occasion that we have been permitted to make two successive offerings in the same year. I feel perfectly safe in saying that $150,000,000 can be sold. These times are rather times of stress. Things are a little bit easier now. Experience may demonstrate a substantially larger possibility; I hope that it may. But I feel perfectly safe in estimating that $150,000,000 will be fairly readily absorbed.

Senator FLETCHER. Each year?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. You have made a second offering of $60,000,000, have you not?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. When were they put on the market?

Mr. LOBDELL. They went on the market the 3d of October.

Senator FLETCHER. They are dated May 1 also?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. You always offer these bonds at par, of course, and accrued interest?

Mr. LOBDELL. Yes; par and accrued interest.

Senator FLETCHER. They draw 5 per cent?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. How many of those have you sold? Can you give us an idea?

Mr. LOBDELL. Yes. I would not mind giving that to you gentlemen, but I would not care to put in the record.

Senator FLETCHER. And you think those will be taken?

Mr. LOBDELL. Unquestionably.

Senator FLETCHER. That amount will be available for loans?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. What other funds have you available for loans?

Mr. LOBDELL. We have recourse to the Treasury, under the deposit scheme, for approximately thirty million.

Senator FLETCHER. Has that been used at all?

Mr. LOBDELL. Yes, sir. The bank in your district, Columbia, used that before this sale was begun, to the extent of $2,250,000; and the Bank of Louisville, Ky., to the extent of $1,000,000.

Senator FLETCHER. Any other sources?

Mr. LOBDELL. Well, yes. The banks are, of course, constantly collecting amortization payments, on account of the principal, which they are privileged to invest in farm mortgages.

Senator FLETCHER. That amounts to some four million a year?

Mr. LOBDELL. I should say, roughly, about that sum; yes. It increases a little each year, as the amortization payment grows larger, you know. It would exceed that. The minimum would be four million.

Senator FLETCHER. Can you give the total amount of loans made now through the system to farmers, from the beginning up to date?

Mr. LOBDELL. Roughly, $410,000,000 from the Federal banks and $90,000,000 odd from the joint stock banks.

Senator FLETCHER. And the amortization is 1 per cent?

Mr. LOBDELL. The minimum amortization is 1 per cent, but it grows larger each year. They pay a fixed amount.

Senator FLETCHER. Can you say whether or not many farmers have taken advantage of the privilege of paying off part of the principal at the end of five years?

Mr. LOBDELL. It is not five years since we made the first loan.

Senator FLETCHER. That would give you then, for the year, forty million plus the sixty million and plus thirty million?

Mr. LOBDELL. That does not take into consideration another bond sale within the year, which would expire April 18.

The CHAIRMAN. Next?

Mr. LOBDELL. Yes.

Senator FLETCHER. You mean you may have another sale after this sixty million?

Mr. LOBDELL. Yes; naturally four or five months from the date of this sale we will have another one.

The CHAIRMAN. They are 10-year bonds?

Mr. LOBDELL. Yes; 10 and 20.

The CHAIRMAN. Ten and twenty?

Mr. LOBDELL. Yes.

Senator FLETCHER. Of course, the principal source of your revenue—of your funds—is from the sale of the bonds?

Mr. LOBDELL. I should want to say, Senator, entirely so, except the amortization payments, because the Treasury is merely a stop-gap between sales, and at the conclusion of each sale any use of the Treasury fund must be paid back.

Senator FLETCHER. You would rather be inclined to put an end to that, as far as you can and as quickly as you can—calling on the Treasury? You do not approve of that way of financing, do you?

Mr. LOBDELL. No; I do not think it is the best way. I think it is highly desirable to have a reserve, so that you will not be brought to a standstill between bond sales, but, personally, I do not look with favor upon the general use of the Treasury to finance any business interest.

Senator FLETCHER. I do not know whether you care to tell it or not—but I see no reason against it, if you know—why it was that the Treasury wanted to discontinue your sales, or to hold up your sales. Why did they take that position? Was it because they wanted to offer Liberty bonds?

Mr. LOBDELL. That was it; yes, sir.

Senator FLETCHER. You were competing with Liberty bonds?

Mr. LOBDELL. They needed the entire investment market open to the Government's needs and thought it was the wiser policy to absorb the farm-loan bonds into the Treasury.

Senator FLETCHER. It was not because the farm-loan bonds did not have a market or could not find purchasers?

Mr. LOBDELL. No, sir. We made two sales between Government sales, both of which went off very rapidly.

The CHAIRMAN. That is, before the suit in question was brought?

Mr. LOBDELL. Yes, sir.

The CHAIRMAN. After that, of course, everything was suspended?

Mr. LOBDELL. Yes. One was in the spring of 1919 and one in the spring of 1918.

Senator FLETCHER. Then, considering that the principal source of your supply—of your funds which you are to furnish to the farmers under this system—is the sale of farm-loan bonds, would not you regard it as important and desirable to broaden the market for those bonds and create any additional demands that could be safely and properly created for them?

Mr. LOBDELL. The board would be highly pleased with anything that could be suggested or accomplished which would broaden the market for farm-loan bonds without subjecting them to undue fluctuation.

Senator FLETCHER. You regard those bonds as thoroughly well secured, as well secured as any bonds could be?

Mr. LOBDELL. I do regard them, sir, as of absolute integrity.

Senator FLETCHER. I do not see why we should have any apprehension about their being safe and good security. There was a time when the Panama Canal 2 per cent bonds reached as high as 103.

Mr. LOBDELL. Oh, yes. They carried a circulation privilege, however, and the national banks bought them and issued a like amount of currency against them.

Senator FLETCHER. That was very largely due to the fact they did have that circulation privilege, undoubtedly.

Mr. LOBDELL. Yes.

Senator FLETCHER. I do not know whether you care to express an opinion as to the details of the bill S. 620, whether you consider that as a wise and proper way to broaden this market, or not. If you do, I would be glad to have you. I have not talked with you about it, and I do not know what your views may be on the subject.

The CHAIRMAN. Before you turn to that bill, let me ask you this: Do these bonds when offered have a certain market, and is there a demand for them?

Mr. LOBDELL. Yes.

The CHAIRMAN. Have you experienced much difficulty in disposing of them? Do they go rapidly, so to speak?

Mr. LOBDELL. I would not say rapidly, Senator. At the time of our offerings, during the war, general commercial activities were by common consent suspended; industrials were not putting out bonds, railroads were not putting out bonds; municipalities were asked to withhold their bonds, that the Government might have the market. The consequence was that when we made an offering every bond-distributing agency in the country had an empty cupboard, and every bond salesman in the country was glad to jump onto these and push them. At those times we could sell 50,000,000 in a couple of weeks through these agencies.

The present market is being flooded with industrials, flooded with municipals, road bonds, city bonds of every type, and the major railroad and foreign bonds. Every cupboard is chuck full and every salesman has something that he can sell that pays a bigger commission.

The CHAIRMAN. A great many tax-exempt bonds are being offered?

Mr. LOBDELL. Yes, sir; State bonds and all of those. So that our bonds get a secondary consideration at the salemen's hands and go slowly, and go pretty largely to the man who asks for them. They go largely to the trust companies; they are distributed to trust estates and that sort of thing.

The CHAIRMAN. You have an organization for disposing of the bonds?

Mr. LOBDELL. Yes.

The CHAIRMAN. There may be reasons why you do not wish to put the matter of record, but you are now disposing of the 60,000,000 issue?

Mr. LOBDELL. Yes; and it is very well along. It is not regarded as expedient to name the exact figure, but it is satisfactorily along.

Senator WELLER. Under somewhat similar conditions, about how many of these bonds do you think you could find a market for, say, in 1922, judging from your past experience?

Mr. LOBDELL. I repeat, Senator, that I feel warranted, and I think my associates concur, in anticipating a sale of $150,000,000 and in authorizing the land banks to proceed on that basis and in that anticipation. I can hardly conceive of conditions that would give us a worse market than we had last April, May, and June. During the time that we were selling the forty million of bonds the Burlington and Great Northern came out with their $230,000,000 of 6½, the Government of France offered to the American public $100,000,000 of 8s, and if we were able to sell forty millions in two months with that sort of competition I do not feel disturbed about being able to sell $150,000,000 a year.

Senator WELLER. You rather anticipate a better market in 1922?

Mr. LOBDELL. I do; I should hope so, very much.

The CHAIRMAN. Assuming that you could dispose of $150,000,000 bonds a year, that would be the sum available for loaning to applicants?

Mr. LOBDELL. Yes; that sum plus the collections on account of principal each year, which automatically increases each year.

Senator WELLER. It has been said that to meet the demands of the farmers perhaps a million a day would be necessary to be loaned, which would mean $365,000,000 a year. Do you think you could market $365,000,000 of bonds?

Mr. LOBDELL. I should regard that as very, very doubtful, Senator. I should think that an excessive sum of one type of bond to go to the peculiar type of investors that would take them.

Senator WELLER. I mean under the existing law.

Mr. LOBDELL. Under any law.

Senator WELLER. You think that the figure of $365,000,000 a year is large at this time?

Mr. LOBDELL. I should think it very large—excessive as a steady figure. I presume at the present time and in the next 12 months, if the banks were in shape to receive them, they would have applications for $360,000,000, of which they would, in the light of past experience, be compelled to discard at least 40 per cent.

Senator WELLER. That would bring it down to about $200,000,000, or a little over.

Mr. LOBDELL. Yes, sir.

Senator WELLER. Do you not think that you could probably market $200,000,000 of them in 1922, judging from past experience?

Mr. LOBDELL. Well, Senator, the Federal land banks can not afford to take commitments that they are not absolutely certain they can meet, that is, with reasonable probability. The business of making farm loans involves taking an application through the farm-loan association with its delays 90 days to four months in advance of the time when you want to close it.

I should be very hopeful of a market as broad as two hundred million. I would think that it might be unsafe and unfair to intending borrowers to encourage applications at this time at that rate.

Senator WELLER. In other words, you think, as I understand it, that in 1922 you would have a market which would absorb the probable needs for that year of, say, two hundred million?

Senator FLETCHER. Not the needs, I guess.

Senator WELLER. Applications, then.

Mr. LOBDELL. That suggests a pretty broad proposition. May I take your time to say what I have in mind?

Senator WELLER. I understood you to say that on this basis of $365,000,000 only about 60 per cent of them would be passed.

Mr. LOBDELL. That is the mortality average.

Senator WELLER. Which would reduce it to about $200,000,000—it would be about $216,000,000?

Mr. LOBDELL. Yes.

Senator WELLER. You think that would cover the applications that you would probably have for 1922?

Mr. LOBDELL. Yes; I think so.

Senator FLETCHER. Do you mean that, Judge? Do you mean that the applications over the whole country for 1922 will not exceed $360,000,000?

Mr. LOBDELL. I am using Mr. Silver's figures. They won't reach that amount, because it would not be wise to permit them. No man can estimate, Senator, what the applications would be. The farm-mortgage indebtedness of the country, as suggested by Mr. Silver, is approximated by the census at a slight excess above $4,000,000,000. The normal turnover of a farm loan is somewhere between three and five years.

We are getting money to the agricultural public about 2 per cent cheaper than any other existing agency. As soon as other agencies meet that rate, which they did before the war, and if you loan the money to the farmer cheaper than the railroad can borrow it, at a rate equal to the great States, such as South Dakota's 6 per cent bonds, there is no measuring the extent of your applications. I would not want to make a guess.

Senator FLETCHER. That is what I thought.

Mr. LOBDELL. The other side to that is this: This farm-loan system is to be built for all time, and we can not afford, as much as we are conscious of and in sympathy with present conditions, to sacrifice its perpetuity and its permanent upbuilding to incautious haste. Three years ago the Farm Loan Mortgage Bankers' Association, which embraced practically all of the great loaning agencies of the country, claimed to have $1,000,000,000 on its books. That was the result of a generation of activity. In practically three years of loaning activity we put half of that volume on through 12 land banks.

The CHAIRMAN. In other words, there is outstanding now about $500,000,000?

Mr. LOBDELL. In excess of $500,000,000. If we were to proceed at the rate of $150,000,000 a year only for slightly in excess of three years we would have on our books a total equal to the total of the farm-mortgage banks three years ago—and they had the best loans in the country.

Since they gave that figure we have made $450,000,000 of loans, which must necessarily reduce their holdings. When you take the figure of $4,000,000,000 of loans into consideration, when you take it as a measure, you must pare it down to an extent that no man can hardly approximate to get loans eligible under the farm-loan system. You must discard every loan in excess of 50 per cent of the value of the land to start with. You must discard every mortgage in excess of $10,000 to start with, except as the joint-stock land bank takes it. You must discard every farm that is not cultivated by its owner.

I feel certain that I am correct in stating that a majority of the four billions of farm-mortgage indebtedness is represented by purchase-money mortgages, when lands were purchased at high prices and with a small cash payment down, and that you may discard at one sweep as possibilities more than half of this mortgage indebtedness as a Federal farm-loan possibility.

Senator WELLER. That would be reducing it below two billion.

Mr. LOBDELL. Yes, sir. Then, when you go through and tone down the amounts to $10,000 and eliminate the ineligibles, you bring it down, in my judgment, to $1,500,000,000, if the total figure is correct.

Senator WELLER. You have already loaned one half billion now?

Mr. LOBDELL. We already have one-third of that on our books.

Senator FLETCHER. You have to keep in mind there are something over 2,000,000 farm tenants in the country, and that the percentage of people engaged in agriculture is decreasing; the tendency is to go to the cities and away from the farms very considerably. We want, if we can, to provide a means whereby these tenants can own their farms—so that our purpose is not merely to take care of existing liens. That is only one feature.

Mr. LOBDELL. You have done that, of course, to the extent that the tenant can be accommodated if he can get together 50 per cent of the reasonable and proper purchase price of his farm.

Senator FETCHER. Precisely.

Mr. LOBDELL. Your experience in Florida, and that of the other gentlemen in their respective homes, will tell you that a tenant does not need to get together half of the purchase price in order to buy the farm. He can buy the farm from any farm owner that has got it for sale by paying down less than half.

Senator GLASS. Yes; 25 per cent, and the balance in one, two, or three years.

Mr. LOBDELL. The balance on agreed terms.

Senator FLETCHER. Very often he can give a second mortgage for the purchase.

Mr. LOBDELL. Yes. We are rendering some service along that line.

Senator FLETCHER. Give the farm loan board a first mortgage for 50 per cent of the value, and give the seller a second mortgage for the balance of the purchase price, and acquire his title in that way.

The census figures for 1920 show that there are 1,611,378 farms under mortgage, and the total amount of mortgages on those farms amounts to $4,012,711,213.

Mr. LOBDELL. I assume that is approximately accurate.

Senator FLETCHER. You spoke about limiting these applications. Do you undertake to do that, and in what way?

Mr. LOBDELL. In connection with these bond sales, we call together the presidents of the land banks, study the needs of their respective districts, determine on the amount of the sale, and then apportion to each land bank a given volume of funds.

Senator FLETCHER. That is, the land bank, knowing how much it will have to loan, gives notice to the farm loan associations——

Mr. LOBDELL. Yes.

Senator FLETCHER (continuing). That they can have only so much?

Mr. LOBDELL. That should be the process. Of course they should discriminate in favor of districts that have special needs or in favor of individuals that are under pressure and have adequate security.

Senator FLETCHER. $150,000,000 a year would only give how much to each national farm loan association?

Mr. LOBDELL. Divide that by 4,000. I am not good at figures.

Senator FLETCHER. That would be for a whole year?

Mr. LOBDELL. Yes.

Senator FLETCHER. Don't you think that will have the effect to discourage farmers, to some extent, if they can not get money they need for such a long period of time; that you would need to furnish them a little more than that if you could?

Mr. LOBDELL. We would be happy to furnish them as much more as we can get without subjecting the bond market to speculative features. The Federal farm loan bond does not belong in speculative channels, because we could not function on a widely fluctuating market. The Federal farm loan bond belongs in the strong box. It belongs where the farm mortgage has gone for the last generation.

Undoubtedly, Senator, we would be happy to reach the point where we would not have to put any limitation on them. We did not have to prior to the shutdown. During the last year of our activities, with an abundance of money available, the banks closed $146,000,000 in loans. They had a comfortable volume of applications. At that time it was about a normal volume. The supply seemed to respond to the need. At this time it does not.

Senator FLETCHER. If you apportion, say, $30,000 to a farm loan association for a year, you require that that farm loan association shall have at least 10 farmers as members?

Mr. LOBDELL. Yes.

Senator FLETCHER. Before they can organize?

Mr. LOBDELL. Yes.

Senator FLETCHER. You would find in many instances that that would be a very inadequate sum to supply for a whole year among that number of farmers, would you not?

Mr. LOBDELL. Yes; but against that you will find a very large number of associations that would not make any applications.

The CHAIRMAN. Not every farmer is out asking for a loan, is he, in America?

Mr. LOBDELL. I hope not, but he is pretty thick.

Senator FLETCHER. Generally, when they form these associations, it is for this one purpose?

Mr. LOBDELL. The formation of associations has relatively ceased. From the 1st of July until the 30th of September there were 85 associations formed in the whole country. Twenty-two of those were down in your country, not in your State but in Georgia where they were slow originally about coming in. The country is very well organized.

Senator FLETCHER. The object of forming an association is to borrow money under this system?

Mr. LOBDELL. Yes.

Senator FLETCHER. Therefore every association will undoubtedly have applications. I do not know how you figure that some of them will not make applications.

Mr. LOBDELL. Some of the 4,000 existing associations will not, a very large number of them will not. And that will result in the possibility of a larger distribution to others.

Senator FLETCHER. They will not have new applications where they have already been supplied?

Mr. LOBDELL. Yes; where they are already organized and going. So that taking $150,000,000 as a basis and dividing it by 4,000, you do not reach a very definite result.

Senator FLETCHER. You referred a while ago to the $10,000 limitation. You remember we had that up for discussion some time back.

Mr. LOBDELL. Yes.

Senator FLETCHER. Do you think it would be embarrassing the activities of the board now if that limitation were increased, as it was proposed.

Mr. LOBDELL. Yes; I do.

Senator FLETCHER. You still think it would be embarrassing?

Mr. LOBDELL. Yes.

Senator FLETCHER. You think you would not be able to derive from the sale of bonds sufficient revenue to meet the requirements?

Mr. LOBDELL. Not in the immediate future. A good many other problems enter into the making of a larger loan to any number of them.

The CHAIRMAN. May I ask you this question, for my information. It requires 10 farmers to form an association?

Mr. LOBDELL. Yes.

The CHAIRMAN. Is it a fact that each and every one of those who join in forming an association are prospective borrowers?

Mr. LOBDELL. Yes.

Senator FLETCHER. They have to be.

The CHAIRMAN. They have to be?

Mr. LOBDELL. Yes.

Senator WELLER. As a matter of fact, all 10 of them do not borrow money after they go in, do they?

Mr. LOBDELL. Not the original 10, as a rule, Senator.

The CHAIRMAN. How is that?

Mr. LOBDELL. It is very rarely that the original 10 all get it.

The CHAIRMAN. But they are all seeking?

Mr. LOBDELL. Yes.

The CHAIRMAN. And need the accommodation?

Mr. LOBDELL. Yes.

The CHAIRMAN. I see.

Senator GLASS. What proportion of your loans are now made through agents rather than through associations?

Mr. LOBDELL. The agency provision has only been used in one land-bank district. My recollection is that bank has approximately $50,000,000 of loans, with $800,000 of them made through agents.

Senator WELLER. I understood you to say, Judge, that you are loaning money to these farmers on the average of about 2 per cent less than they would get it outside of this agency?

Mr. LOBDELL. Yes, sir.

Senator WELLER. Then you do not agree with Mr. Silver on his 6 and 10 plus 2 and 10 proposition?

Mr. LOBDELL. I think those are extreme cases, Senator, but they have taken place.

Senator WELLER. I understand, but on the average you do not agree with that?

Mr. LOBDELL. No; I think the average rate is 8 and perhaps above 8.

Senator WELLER. That would be my judgment.

Mr. SILVER. May I say right there that my figures were given on the result of a referendum, not a guess—that they did pay.

Mr. LOBDELL. I do not challenge the statement at all.

Senator FLETCHER. Then they pay, in addition to that, a commission every time they renew the loan.

Mr. LOBDELL. Every three or five years. Senator, you started to ask some question when we digressed.

Senator FLETCHER. Yes; about that bill. I was going to ask you if you would express an opinion regarding it—whether it would accomplish a broadening of the market for the bonds, and whether you considered it a safe proposition.

Mr. LOBDELL. The bill, I should assume, must be considered from two aspects, its relation to the Federal reserve system and to our currency. As to that, you will pardon me if I do not undertake a discussion. That belongs to another branch of the Government.

As to its effect on the farm-loan system, I am not sure that we have studied it as deeply as we perhaps should have done. My impression was that this had come up, Senator Glass, before your joint committee, of which yourself and Senator Fletcher and Mr. Lever were members, and had been discarded.

Senator FLETCHER. It passed the House and passed the Senate. It passed the Senate and passed the House in the Sixty-third Congress. It passed the Senate in the Sixty-fourth Congress and then went to the House.

Mr. LOBDELL. I may have been misinformed. If it would widen the market for farm-loan bonds without unsteadying the market we would be for it.

Senator GLASS. If it would?

Mr. LOBDELL. Yes. Whether or not it will I am unprepared to state. Federal farm-loan bonds made a basis for note issue, made eligible as security for rediscount paper, can only reach the Federal reserve system, and result in the issue of notes against them through national banks. A national bank would have no object in acquiring a farm-loan bond except as secondary reserve. By secondary reserve I mean the law requires it to keep 8 or 10 per cent in each rate. Good business dictates that the bank must have more. They create a secondary reserve, something that is quickly convertible into cash. A 5 per cent rate or bond would not make it attractive to national banks, and it would only be attractive as a secondary reserve.

If the banks would buy them and would use them as secondary reserve, it would enlarge the market. The secondary reserve five years ago was quite a problem, but in those five years twenty billions of Government bonds have been issued, each of which is eligible for the Federal reserve bank as against a bill of exchange or as security for loans. A bank which five years ago might have had to scurry around to get secondary reserve can buy Government bonds today, the direct obligations of the Government, which will yield a rate equal to these, and which are all eligible at the Federal reserve system.

That they are not doing that very greatly is evidenced by the fact that these bonds are way below par.

Senator GLASS. As a matter of fact, is it not true that there is scarcely a national bank in the United States which has not more secondary reserve than it really wants, and is trying to have the public absorb its investment?

Mr. LOBDELL. I will approach that in just a minute, if I may. In addition to the Government bond, which has grown up out of the war, which the bank can buy, or which the mercantile house or the factory can buy, if it wants to keep a reserve on which it can borrow through the bank and take it on into the system, there has grown up a system of bank acceptances. I heard you use the term awhile ago, Senator. That is the very highest order of secondary reserve.

If the little bank with which I was connected at one time I wanted a $5,000 secondary reserve. I can go to New York and the National City Bank will sell me a bank note and bank acceptance. I know it is going to be paid in 90 days. I know that I can take it and go to a bank anywhere in the country and sell it in less.

Senator GLASS. You assume it is going to be paid in 90 days. As a matter of fact, those acceptances were not paid in 90 days, and we were presented with the amazing spectacle of acceptances being renewed. And the vicious system was indulged in to such an extent that it came pretty near wrecking three of the biggest banking institutions in New York.

Mr. LOBDELL. I know it will be paid to my bank.

Senator GLASS. That may be because your bank is very prudently managed.

Mr. LOBDELL. I mean the little country bank knows it is going to get the money, because the National City has got to pay it or it blows up.

Senator GLASS. And it might blow up, too.

Mr. LOBDELL. He will buy it rather than buy a paper of uncertain or not absolute integrity, and of more or less uncertain market value. These suggestions go to the question of whether or not it will create a market. I don't know. I suggest them for what they may be worth.

Now, then, if the market should be created by the purchase of these bonds for secondary reserve, then what? Secondary reserve is of no value unless it can be thrown overboard in time of storm. No country bank, no city bank, could be managed and buy anything for secondary reserve unless it is something it can throw overboard in time of stress.

If farm-loan bonds come into general use as secondary reserve, and if we reach a period of stress and they were thrown overboard and the market demoralized, the farm-loan system comes to a halt.

So when we weigh the whole thing out, while we want all the money the farmers ask for, and are anxious to get it, we can but ask ourselves two questions: First, will it produce the result? If it did produce the result of expanding the sale, would the possible hazard involved outweigh the advantage?

We submit these thoughts for whatever they may be worth.

Senator FLETCHER. If the bonds are given this status which is proposed by the bill, would it not stimulate the public demand, in addition to the bank demand you mention—investors?

Mr. LOBDELL. I would not at the moment think of any other public channel, except the general psychological effect, which would be helpful I should think.

Senator FLETCHER. Is there any other question of Judge Lobdell on the bill S. 620? If not I will take up the other one.

Senator WELLER. As these bonds are becoming better known among bankers the market is becoming gradually easier in which to sell them, is it not, everything else being equal?

Mr. LOBDELL. I hope so. This is only the second consecutive sale we have been privileged to make. The Federal land banks have spent about $30,000 in advertising them in agricultural papers. The Saturday Evening Post, which never before took the advertisement of any other bond, took an advertisement in this instance. There is coming in a gratifying call for them in small volume. We have gotten a lead-pencil order for a $300 bond. That is one of the happiest omens we see, Senator.

There is enough money wasted every year in foolish investments to finance this system. We believe that a perpetual campaign of education will divert a large portion of that to—as Senator Weller has said, as they become more widely known—trust companies, fiduciaries, guardians, and trustees, who will take them on for estates. There is nothing unsatisfactory in the progress of the public reception of the bonds.

The CHAIRMAN. There is no longer any question as to the validity of the bonds?

Mr. LOBDELL. That is absolutely and entirely settled. Don't you regard that so?

Senator FLETCHER. Yes.

The CHAIRMAN. The rate of interest is publicly known?

Mr. LOBDELL. Yes.

The CHAIRMAN. And the date of maturity and all such elements. It seems to me they ought to be marketable.

Senator FLETCHER. They are marketable, but the public now, according to the experience of the board, absorbs only somewhere about $150,000,000.

Mr. LOBDELL. Yes; as far as we feel warranted in venturing an opinion.

Recurring to the possibility of a demand in manufacturing circles, we recently picked out 2,700 manufacturing concerns that deal more or less in agriculture, that manufacture fertilizers, agricultural machinery, and who cater to the farming public, and circularized them. We had some responses from them. Most of them came back saying their treasury was empty now, but they would like to come in after awhile.

Senator GLASS. I thought that was a clever piece of publicity.

Senator WELLER. And good educational propaganda, too.

Mr. LOBDELL. It was no mistake. It broadened the knowledge; it was a comprehensive circular and enlightening. We are circularizing the bankers pretty generally.

Senator FLETCHER. Judge, with reference to S. 2183, I realize that is a matter of some delicacy.

Mr. LOBDELL. That is the change in personnel?

Senator FLETCHER. Yes. I would like to ask you, first, if you do not think generally the idea of having the Secretary of Agriculture an ex officio member of the board is a good one? As this whole system is primarily for agriculture, it seems to me that the Department of Agriculture ought to be closely related to it.

Mr. LOBDELL. There could be no objection on the part of the board to such a relationship. I would say that the Secretary of Agriculture should be consulted as to whether he would have any time to give to it.

Senator GLASS. You know that the Secretary of the Treasury has none.

Mr. LOBDELL. I was just going to say I hoped I would not offend ex-Secretary Glass by saying that the Secretary of the Treasury does not offer, as he knows that during his period of incumbency we were able to get to him only on matters of emergency consideration.

The CHAIRMAN. Your board has more or less business to do—to use that phrase—with the Treasury, has it not?

Mr. LOBDELL. Yes; but we reach it through subordinate officials. For instance, at the present moment Mr. Gilbert is secretary in charge of fiscal bureaus. We never take a fiscal question to Secretary Mellon unless Mr. Gilbert hesitates to settle it. The Secretary of the Treasury, a Cabinet official, charged with his great responsibilities, can not in the nature of things give his attention to these other things.

The CHAIRMAN. I presume, of course, that personally he does not give his immediate attention to those details.

Mr. LOBDELL. There would be no objection. As to the psychology of it, as to whether it would serve a helpful purpose, I could not say. Practically, I should think—and I say this with profound respect for you and everybody else, Senator—that the bringing on to the board of any man as preoccupied and as busy as a Cabinet member would not add to the intelligent consideration of the problems before the board.

Senator GLASS. I quite agree with you. It might have a psychological effect in the farming communities of the United States, but beyond that I do not think it would serve any useful purpose.

Mr. LOBDELL. As to the other part of the bill, Senator Fletcher, it is rather a delicate question for the members of the board, whose positions are involved, to discuss. I do not hesitate to say, and I believe my colleagues will bear me out, that it would be possible for one man to administer the farm loan system if you wanted it done that way.

The tasks of the Farm Loan Board are more judicial than they are executive. If you want the judgment of four men on a given bond issue, on the rate it ought to bear, on the various securities that come through, on all of the problems that arise, then four is not too many. For the major task, gentlemen, let me impress this on you: Every loan that is made in this system comes to the Farm Loan Board for review before it is placed as passed for a bond issue. That means $150,000,000 a year in loans averaging $3,000 each are approved before the bond issue is allowed. And I want to impress on you another thing: That the approval of a bond issue by the Farm Loan Board is a sanction of the United States Government on them.

I think it is too big a task for less than four men to undertake.

Senator FLETCHER. You do not mean, Judge, that, say, Bill Jones, in Iowa, a member of the National Farm Loan Association there, makes application for a loan of $3,000—that those papers come to your board; that you pass upon that security, and all those papers, do you?

Mr. LOBDELL. In detail; yes, sir. But not until after the loan is made. That application, with its appraiser's report, with the report of the loan committee, come to our board and are reviewed before we permit the mortgage to be pledged as security for a bond uttered in the name of the United States Government. And it should not be intended to give it any less scrutiny.

Senator FLETCHER. You examine it for the purpose of recommending or passing on a bond issue?

Mr. LOBDELL. Yes.

Senator FLETCHER. Authorizing a bond issue?

Mr. LOBDELL. Yes.

Senator FLETCHER. But as to the abstract of title, the mortgage papers and all those details, that is all done through the bank?

Mr. LOBDELL. Yes; that is all done in the districts. As I say, there are 4,000 of these associations. They make quarterly and annual reports. Twenty thousand reports have to be analyzed and taken care of. There are 300 appraisers in the appraisal department, with its activities.

Senator GLASS. You appoint the appraisers?

Mr. LOBDELL. Yes; we appoint the appraisers. We have reviewing appraisers who study them.

Senator FLETCHER. How many appraisers have you?

Mr. LOBDELL. Approximately 300—a little in excess of that.

Senator FLETCHER. Then you appoint examiners?

Mr. LOBDELL. We appoint land-bank examiners, and their reports come in for attention. The banks make monthly reports. It is not a sinecure, Senator.

The CHAIRMAN. To put a sort of omnibus question, What are the duties of the board, if it does not require too many words to make answer?

Mr. LOBDELL. The duties of the board are, first, those such as the Comptroller of the Currency has. We supervise and regulate 12 Federal land banks, at the present something like 22 joint-stock land banks, and 4,200 associations, which correspond to the comptroller's national banks. That is comparatively easy.

We appoint this field force of appraisers. We examine every loan before it is pledged as basis for a bond issue. We negotiate and carry on the bond sales in the name of the banks, receive their bonds, deliver them to the public, make collection, and transmit the funds.

The original conception of the act undoubtedly was that the individual banks should sell their own bonds. Experience immediately demonstrated that that was not practicable—some few banks could—and that they must be concentrated, sold en bloc.

Accordingly, in addition to its supervisory work, the board has the actual business management of these institutions, with twenty-five millions of capital and four hundred millions of assets that are growing at the rate of $150,000,000 a year—and four active members are not too many for that task.

As I say, that is a delicate question for us to discuss.

Senator FLETCHER. I realize that. We want to get at what is in the public interest; that is all.

Mr. LOBDELL. Have I made myself clear, Senator Shortridge, in answer to your question?

The CHAIRMAN. I think so.

Senator FLETCHER. My own idea in connection with this bill was that a large portion of the work had been done already when you organized your banks, when you got the system in operation, your plans all adopted, your circulars and instructions, etc., all issued; that you had it pretty well systematized now, and that the principal foundation work had all been accomplished. It occurred to me that in these days when we are trying to economize in every direction that perhaps there was a chance to save some overhead expenses by reducing the number of paid members on this board.

Mr. LOBDELL. The board does not take it as personal.

Senator FLETCHER. I have not the slightest feeling against the board, because I have the highest regard for all of its members, and always have had, but it was just an effort to try and save thirty or forty thousand dollars a year—the salary of two members, $10,000 each, and their clerks, etc., which each member has to have, stenographers, and an office force of his own.

Mr. LOBDELL. Senator, pardon me. I hope it is not offensive, but you have entirely misconceived the facts. The organization of the system was a burden, of course, and the working out of its details, but it is just as much work to pick up one application for a farm loan of $3,000 and study it out, see that the applicant is eligible, study the aspects of his security, see that the security is good—and we are scrutinizing twice as many loans every year as we have had applications for associations.

The CHAIRMAN. You divide that work among your members?

Mr. LOBDELL. Oh, yes.

Senator FLETCHER. How do you divide the work now?

Mr. LOBDELL. Roughly, Mr. Lever has charge of the associations, their reports, the examinations, the granting of charters, and the various problems that they raise; Mr. Joyce has charge of the banks, their reports, their examinations, and the office personnel; Capt. Smith has charge of the appraisals and the examination of securities; I devote myself to such work as devolves naturally on the executive officer of an organization and to the sale of farm-loan bonds and the disbursement of the funds.

Senator FLETCHER. How much office force have you now—the whole board, I mean?

Mr. JOYCE. The entire force, the personnel of the office?

Senator FLETCHER. Yes.

Mr. JOYCE. I can not give you the exact figures; I think 34 or 35.

Senator FLETCHER. Then you select the officers of the banks?

Mr. LOBDELL. During the period of temporary organization, which is continued by the Hollis resolution, and we would always, of course, select the Government representatives in the organization.

Senator FLETCHER. Do you gentlemen all feel that you have each of you got your hands full—that is the main thing; or could you get along without so many members of the board and accomplish the same results? You said you could do it with one man. Would that mean that the one would have to employ additional help?

Mr. LOBDELL. To illustrate, the Attorney General reuders more opinions than the Supreme Court of the United States, and it costs twice as much to maintain the Attorney General's office as it does to pay the salaries of the members of the Supreme Court.

The CHAIRMAN. Do I infer that you mean this, that one man could be the head of this board, but if so he would have to employ competent men——

Mr. LOBDELL. That is what I mean.

The CHAIRMAN. To do this necessary work. Is that what you mean?

Mr. LOBDELL. To whom he would delegate the tasks that we now apportion among ourselves.

Senator GLASS. Would that one man necessarily, or even probably, reflect the sentiment and the requirements of the great farming commuuities throughout the United States?

Mr. LOBDELL. Senator, he would be a Leonardo, if he did.

The CHAIRMAN. A superman.

Mr. LOBDELL. Senator, I take credit of being a man of average intelligence, but I find myself daily corrected by my associates. Every day we correct some other one. That is, we have different ideas. One time it would be the judgment I would have rendered on a proposition which had been sent up to me by a subordinate, but on discussing it with my associates I concluded that it would have been an erroneous judgment. I do not know of any one man or any two men that are big enough——

The CHAIRMAN. Personally, I think that the great West, the far Western States, are well pleased to have a member on this board.

Mr. LOBDELL. That is true, of course, of the South.

The CHAIRMAN. And I can well suppose that the Southland feels the same, as one of the sections of our vast territory.

Mr. LOBDELL. The agriculture of the country rather divides itself, strangely, into about four sectional divisions.

The CHAIRMAN. The other day there was some statement put in showing the cost of other departments, and I gather, if not intended, the effect of it was rather to show that this board was top-heavy in point of overhead charge, as compared with other departments. Are you familiar with that?

Mr. LOBDELL. As I understand it, there was a comparison made with the Internal Revenue Department. I got that from some source. I asked my colleague, Mr. Joyce, to ascertain the number of employees and salaries in the Internal Revenue Department. Have you got that?

Mr. JOYCE. I don't know whether I have the figures here or not. Yes; I have them. In the city of Washington alone there are 324 officials drawing salaries of $3,600 per annum and above. Among these are 33 at $4,500 per annum, 14 at $4,800, 20 at $5,000, 7 at $6,000, 3 at $7,500, and 2 at $10,000.

The CHAIRMAN. What department is that?

Mr. JOYCE. The Internal Revenue. That is under one head; that was the analogy.

Senator FLETCHER. Does each member of the board have his own office, with a stenographer and clerks under him?

Mr. LOBDELL. Yes.

Mr. JOYCE. No clerks.

Mr. LOBDELL. Each member has a private secretary, which is a combination clerk and stenographer—just one each. In my office, which is naturally more visited than the others, I have a desk man who does other work.

Senator FLETCHER. Capt. Smith, what do you think about it? Do you feel there is a need for four members on the board?

Mr. SMITH. I can not see where the saving comes in. If you take off two members you must substitute them with somebody. You must not figure that $20.000 is saved. If you take two off you must put on somebody to do the work.

Senator FLETCHER. That would be true unless there is not enough work to occupy the time of the four members. If the work that is being done by the four can be done by two, then you would save; otherwise you would not.

Mr. SMITH. That is the point, right in there. There will have to be some others put on to do the work.

Senator FLETCHER. You do not think it would save anything by reducing the number of members of the board?

Mr. SMITH. I do not; no, sir.

Senator FLETCHER. I have no further questions.

The CHAIRMAN. May I ask just a question? During the period when the constitutionality of this act, and the validity of the bonds, were involved, and pending their determinant on, you suspended active operations, did you not?

Mr. LOBDELL. Yes; as far as making the loans was concerned. Of course, we could not suspend collections and keeping up the insurance. But we suspended loaning activities altogether.

The CHAIRMAN. During that period were you able to curtail expenses?

Mr. LOBDELL. Oh, yes. We cut our personnel "in two in the middle," and dispensed with the services of a secretary, which we thought could be done. Mr. Joyce took hold of that work, and by his supervision of that we found that by adding only three or four employees when we got back to work, we got along very nicely. We are getting along now with something like 20 less than we originally did, because of the attention to details which Mr. Joyce gives.

The CHAIRMAN. Did any complaint come to you before the shutting down and the curtailment of expenses, touching the number on the board? Or was there any complaint came up from any source?

Mr. LOBDELL. No; I never heard the question raise itself. There is a little history connected with that which would illustrate it, if you really want it.

The CHAIRMAN. What do you mean?

Mr. LEVER. I really do not think it is a matter of enough importance to become a part of the record.

The CHAIRMAN. At any rate, prior to the relieving of certain employees or assistants, you heard no complaint, or no complaint came up to you, respecting the membership of the board?

Mr. LOBDELL. So far as we know, the question had never arisen. In connection with that it seems to me that on the part of some of our employees a threat was made that this agitation would begin.

The CHAIRMAN. At any rate, an agitation did begin?

Mr. LOBDELL. Yes. I do not, of course, attribute any of it to Senator Fletcher.

The CHAIRMAN. I merely wanted to know when this question was raised.

Mr. LOBDELL. I do not know whether you gentlemeu want to know or care to know——

The CHAIRMAN. Personally, speaking for myself, I merely want to get at the facts. The motives which inspire movements may be quite immaterial.

Senator FLETCHER. It is simply a question of disposing of it on its merits, as to practical, actual conditions. It does not matter how it started. The question is whether or not it is meritorious.

The CHAIRMAN. That is true. Am I to understand, Judge, that the board as now constituted is kept busy in thoughtful work in order to carry out the purposes of this law?

Mr. LOBDELL. I should answer yes, unhesitatingly, to that; not only in thoughtful work, but in a great mass of detail, to which we find it necessary to give personal attention.

The CHAIRMAN. Putting the matter negligibly a membership on this board is not a sinecure?

Mr. LOBDELL. I have not found it so, Senator.

Mr. LEVER. May I add this. Senator Glass remembers me as a Member of Congress, and for six years as a chairman of the Committee on Agriculture. I think therefore I can qualify as to what a man ought to do in the way of mental and physical labor. I thought Senator Glass, out of the kindness of his heart, as Secretary of the Treasury, was really handing me something that would let me rest a little bit, after six years of hard labor. I had not been on the board two weeks before I became convinced of the fact that he had given me a real man's job, and I have since found that was the case. That will express my feeling in the matter.

Mr. LOBDELL. Let me suggest in connection with the question concerning a member of the Cabinet, that we have not had opportunity to confer with Secretary Mellon since this matter was called to our attention; so in that sense we do not speak for him.

(By direction of the chairman the following data is incorporated in the record:)

Total loans applied for from Apr. 1, 1921, to June 30, 1921	$103,322,481
Total applications now pending	113,231,700

Loans closed from May 1 to September 30, by land bank districts:

Springfield	$1,499,300	Omaha	$4,197,500
Baltimore	1,351,700	Wichita	3,803,500
Columbia	4,999,700	Houston	4,132,300
Louisville	5,425,800	Berkeley	1,561,600
New Orleans	3,317,250	Spokane	4,687,400
St. Louis	3,784,900		
St. Paul	4,245,200	Total	43,006,150

The CHAIRMAN. That is all for to-day, and we will adjourn, to meet again at the call of the chairman.

(Whereupon, at 1.30 o'clock p. m., the subcommittee adjourned, subject to the call of the chairman.)

NSA # 22055

END OF
TITLE